H.P. EXCISE & TAXATION DEPARTMENT

GOODS AND SERVICES TAX AUDIT MANUAL 2019

GSTAM-2019

Government of Himachal Pradesh
Department of State Taxes & Excise
Goods and Services Tax Audit Manual

Foreword

1. It is indeed a great pleasure to provide the HPGST Audit Manual 2019, after approval by the Government. As we are aware, GST regime commenced w.e.f. 1st July 2017, however, the audits under GST had been put on hold primarily for the reason so that the database of returns including Annual Return is available for one full accounting period.

2. The Government vide its notification No. EXN-B (1)-1/2014 dated 28th June 2017, established a tax audit unit with an aim to conduct audit of registered tax payers in the state of Himachal Pradesh.

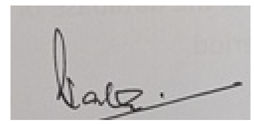
3. I would like to emphasize that the manual does not deal with legal interpretations and rulings on GST matters. Future changes in the HPGST ACT 2017 and the Rules made thereunder, administrative policies and procedures may require changes to this manual. Experience gained during the conduct of audit would also necessitate periodic updating of the manual to maintain its utility.

4. The norms for selection of units for conducting audit were made by selection of units based on risk parameters, number of days for conducting audit and formation of audit parties. These have been incorporated in this manual.

5. The audit process beginning from the assessee master file, desk review, revenue risk analysis, trend analysis, gathering of information, evaluation of internal controls, scrutiny of annual financial statement, audit plan, audit verification, working papers, apprising the Taxpayer about irregularities noticed and ending with suggestions for future compliance have been streamlined and brought under one chapter. The repetitions in the earlier audit manuals have been removed. Separate Annexures have been prepared containing detailed verification checks pertaining to GST.

6. Due care has been taken in drafting the GSTAM, 2019 and suggestions and feedbacks received were extensively deliberated and suitably incorporated.

A team of officers in the headquarters comprising of Sh. Dev Raj Sharma, Additional Commissioner State Taxes and Excise Gr. II, Sh. Satish Sharma, Jt. Commissioner of State Taxes and Excise, Sh. Vinod Kashyap, Dy. Commissioner of State Taxes and Excise, Sh. Hans Raj, Asstt. Commissioner State Taxes and Excise, and Ms. Sarita Gaur, Asstt. Commissioner State Taxes and Excise were entrusted with this onerous task under the able guidance of Dr. Ajay Sharma, Commissioner of State Taxes and Excise Himachal Pradesh, has prepared this audit manual.



Dr. Ajay Sharma (IAS)
Commissioner State Taxes and Excise,
Himachal Pradesh.

Shimla
December, 2019

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CHAPTER 1

INTRODUCTION & LEGAL AUTHORITY

1. Purpose:

1.1 The purpose of this manual is to outline the principles and policies of audits conducted under the HPGST ACT, 2017 and the Rules made there under. Guidelines provided herein are intended to ensure that the audit of taxpayers is carried out in a uniform, efficient and comprehensive manner, adhering to the stipulated principles and policies and as per best international practices.

1.2 Provisions of HPGST Act, 2017 for Audit:-

Section 2(13) of the HPGST Act, 2017, defines 'Audit' as "the examination of records, returns and other documents maintained or furnished by the registered person under this Act or Rules made thereunder or under any other law for the time being in force to verify, inter alia, the correctness of turnover declared, taxes paid, refund claimed and input tax credit availed, and to assess their compliance with the provisions of this Act or rules made thereunder".

Accordingly, 'Audit' implies –

(a) Detailed examination of

i. records,

ii. returns and

iii. other documents -

maintained / furnished by a registered person, under GST law/any other law or rules;

(b) For verification of correctness of -

(i) turnover declared;

(ii) taxes paid;

(iii) refund claimed;

(iv) input tax credit availed; and

(v) assessment of compliances with provisions of GST law and rules.

Thus, GST audit is not only for reconciliation of tax liability and payment thereof but, it also encompasses the verification of compliance of the provisions of the GST Acts, laws etc. by a registered person.

Relevant Statutory Provisions:

A) General Audit: Audit by tax authorities

Sec. 65 of HPGST Act, 2017:

(1) The Commissioner or any officer authorized by him, by way of a general or a specific order, may undertake audit of any registered person for such period, at such frequency and in such manner as may be prescribed.

(2) **The officers referred to in sub-section (1) may conduct audit at the place of business of the registered person or in their office.**

(3) The registered person shall be informed by way of a notice not less than fifteen working days prior to the conduct of audit in such manner as may be prescribed.

(4) The audit under sub-section (1) shall be completed within a period of three months from the date of commencement of the audit: Provided that where the Commissioner is satisfied that audit in respect of such registered person cannot be completed within three months, he may, for the reasons to be recorded in writing, extend the period by a further period not exceeding six months. Explanation.—For the purposes of this sub-section, the expression “commencement of audit” shall mean the date on which the records and other documents, called for by the tax authorities, are made available by the registered person or the actual institution of audit at the place of business, whichever is later.

(5) During the course of audit, the authorised officer may require the registered person,—

(i) to afford him the necessary facility to verify the books of account or other documents as he may require;

(ii) to furnish such information as he may require and render assistance for timely completion of the audit.

(6) On conclusion of audit, the proper officer shall, within thirty days, inform the registered person, whose records are audited, about the findings, his rights and obligations and the reasons for such findings.

(7) Where the audit conducted under sub-section (1) results in detection of tax not paid or short paid or erroneously refunded, or input tax credit wrongly availed or utilised, the proper officer may initiate action under section 73 or section 74.

B) Provision for access to business premises and records of taxpayer for Audit:

Sec. 71 of HPGST Act, 2017

(1) Any officer under this Act, authorized by the proper officer not below the rank of Joint Commissioner, shall have access to any place of business of a registered person to inspect books of account, documents, computers, computer programs, computer software whether reinstalled in a computer or otherwise and such other things as he may require and which may be available at such place, for the purposes of carrying out any audit, scrutiny, verification and checks as may be necessary to safeguard the interest of revenue.

(2) Every person in charge of place referred to in sub-section (1)shall, on demand, make available to the officer authorized under sub-section(1) or the audit party deputed by the proper officer or a cost accountant or chartered accountant nominated under section 66—

i. such records as prepared or maintained by the registered person and declared to the proper officer in such manner as may be prescribed;
ii. Trial balance or its equivalent;
iii. Statements of annual financial accounts, duly audited, wherever required;
iv. cost audit report, if any, under section148 of the Companies Act, 2013;
v. the income-tax audit report, if any, under section 44AB of the Income- tax Act,1961;and
vi. any other relevant record.

for the scrutiny by the officer or audit party or the chartered accountant or cost accountant within a period not exceeding fifteen working days from the day when such demand is made, or such further period as may be allowed by the said officer or the audit party or the chartered accountant or cost accountant.

C) Prescribed Rules for Audit:

Rule 101 of The H.P. Goods And Service Tax Rules, 2017:

(1): The period of audit to be conducted under sub-section (1) of section 65 shall be a financial year or part thereof or multiples thereof.

(2): Where it is decided to undertake the audit of a registered person in accordance with the provisions of section 65, the proper officer shall issue a notice in FORM GST ADT-01 in accordance with the provisions of sub- section (3) of the said section.

(3): The proper officer authorised to conduct audit of the records and the books of account of the registered person shall, with the assistance of the team of officers and officials accompanying him, verify the documents on the basis of which the books of account are maintained and the returns and statements furnished under the provisions of the Act and the rules made thereunder, the correctness of the turnover, exemptions and deductions claimed, the rate of tax applied in respect of the supply of goods or services or both, the input tax credit availed and utilised, refund claimed, and other relevant issues and record the observations in his audit notes.

(4): The proper officer may inform the registered person of the discrepancies noticed, if any, as observed in the audit and the said person may file his reply and the proper officer shall finalise the findings of the audit after due consideration of the reply furnished.

(5): On conclusion of the audit, the proper officer shall inform the findings of audit to the registered person in accordance with the provisions of sub- section (6) of section 65 in FORM GST ADT-02.

D) Maintenance of Accounts and Records: Section 35 of HPGST Act, 2017 read with Rule 56 of HPGST Rules 2017 provides for maintenance of accounts and records by registered person. Further Section 36 of HPGST Act and Rules 57 and 58 of HPGST Rules may also be referred in this regard.

1.3 Calling for documents from the Registered Taxpayer:

The auditor shall intimate the date of conduct of audit by writing a letter in form GST ADT 01 (Annexure II) atleast fifteen working days prior to the conduct of audit and also request for providing records / documents which are necessary for conducting audit. In case the registered person does not respond to the letter, a reminder should be issued within reasonable time. In case the registered person is not volunteering to submit the same on the basis of letters issued by the auditor, another letter should be issued giving details of penal provisions contained in Section 122, 123 and 125 of the HPGST Act, of not complying with the request of the department to facilitate conduct of audit. However, in case the registered person fails to comply then action under above sections of HPGST Act may be taken and a self- contained note may be sent to the Commissionerate for taking appropriate/necessary action against the registered person. Further the details of such registered persons should be forwarded to the respective zonal units of Audit Commissionerate for inclusion in the risk parameters, so that in future the said person may be identified for audit on priority. Details of said person may also be provided to the concerned authorities to downgrade his GST compliance ratings.

1.4 Structure of Tax Audit Unit:

The Addl. Commissioner (Audit) is the incharge of Tax Audit Unit at headquarter and the Jt. Commissioner (Audit) monitors the working at Zone, who further constitutes the audit teams, headed by DC/AC to conduct the audit of registered taxpayers in their respective Zones.

CHAPTER 2

OBJECTIVES & PRINCIPLES OF AUDIT

2.1 The objective of audit of taxpayers is to measure the level of compliance of the taxpayer in the light of the provisions of the HPGST Act 2017 and the rules made there under.

2.1.1 Audit examines the declarations of taxpayers to not only test the accuracy of the declaration and the accounting systems that produce the declared liability, but also evaluate the credibility of the declared or assessed tax liability. The taxpayer's anticipation of such actions has preventive and deterrent effects. The deterrent effect is the extent to which audit actions discover and stop taxpayers from continuing to under-declare or manipulate their tax liability. The preventive effect is the extent to which registered persons decide not to evade tax, because they are aware of audit activity and fear of detection by the tax auditors.

2.1.2 An effective audit program generally results in the discovery of under-declared liabilities either by omission, error or deliberate deception. The amount of additional revenue raised depends not only on the level of compliance by the taxpayers, but also on the effectiveness of the auditors and the audit planning and implementation. An efficient and effective audit system will assist the government in its pursuit of increasing taxpayer's voluntary compliance and facilitate the tax administration's aim of getting "the right tax at the right time."

2.2 Principles of audit:

The basic principles of audit are -

i. Conducting audit in a systematic and comprehensive manner.
ii. Emphasis on the identified risk areas and scrutinizing the records maintained in the normal course of business.
iii. Applying audit techniques on the basis of materiality i.e. degree of scrutiny and application of an audit tool depending upon the identified nature of risk factors.
iv. Proper recording of all checks and findings made during the entire audit.
v. Identifying the unexplored compliance verification parameters.
vi. Educating the taxpayer for voluntary compliance.

2.3 General Guidelines for Auditor:

While conducting audit, the auditors are required to keep in view, the prevalent trade practices, the economic realities as also the industry and business environment in which the registered person operates. Therefore, the auditor should take a balanced and rational approach while conducting the audit. Besides, the auditor is expected to play a key role in promoting voluntary compliance by the registered persons. During the course of the audit, if certain technical infractions, without any revenue implications, arising due to bona fide oversight or ignorance of the registered person, are noticed, the registered person should be guided for immediate correction. Such cases should also be mentioned in working papers. An auditor is responsible for conduct of audit and should endeavour to take a final view on all issues raised by him during the audit. The working papers for each of the step of audit should be filled in as soon as that step is completed. They should be 'speaking documents' that clearly explain why a particular area was included in the audit plan as well as the basis for arriving at every objection that goes into the draft audit report after audit verification. The documentary evidence which has been relied upon in arriving at certain conclusion should invariably be cited and included. Verification of records mandated by the statute is necessary to check the correctness of assessment and payment of tax by the registered person in the present era of self-assessment. In keeping with the principles of audit outlined above, audit has to be conducted in a transparent and systematic manner with focus on business records of the registered person and according to the audit plan for each registered person. Number of the registered tax payers to be audited in a year are to be decided by the Commissioner State Taxes & Excise.

2.4 Confidentiality should be maintained in respect of sensitive and confidential information furnished to an auditor during the course of audit. All records submitted to the audit parties in an electronic or manual format, should be used only for verification of levy of GST or for verification of the tax compliance. These shall not be used for any other purposes without the written consent of the registered person. Maintaining the confidentiality is necessary to secure the trust and co-operation of the registered person.

2.5 Period to be covered during audit

The period to be covered under audit is prescribed in Rule 101 (1) of The H.P. Goods and Service Tax Rules, 2017 as financial year, or part thereof or multiples thereof to cover the retrospective period up to the previous audit or the limitation period specified in Section 73 or 74 of the HPGST Act, 2017.

2.6 Duration of audit

2.6.1 Efforts should be made to complete each audit within the following general time limits:-

The indicative duration for conduct of Audit that is inclusive of desk review, preparation and approval of audit plan, actual audit and preparation of audit report wherever necessary, for each category would be as under:

i. Large taxpayers – 6 to 8 working days
ii. Medium taxpayers – 4 to 6 working days.
iii. Small taxpayers – 2 to 4 working days (including audit of the Deductor, who all under the provisions of Section 51 of HPGST Act, 2017 {who pay TDS} and operators who collect tax at source as per provisions of Section 52 of HPGST Act, 2017)

The above mentioned working days are indicative and applicable for conduct of GST audit covering one year period. In case the audit coverage is for five years, the number of days may be increased to maximum of 16/12/8 days for large, medium and small taxpayers respectively. In other words the number of days for conduct of audit may be increased proportionately, with an increase of 25% of working days for every additional year of coverage.

The duration, as above, covers the effective number of working days spent by the audit group for the audit of a particular registered person from desk review to preparation of audit report (i.e. days spent in office as well as at the premises of the registered person). In exceptional cases, the aforesaid period may be extended with the approval of Audit Commissioner. Further, in accordance with the requirements of the audit of a particular registered person such duration can suitably be reduced with the permission, prior concurrence of the Additional/Joint Commissioner, provided the verification as per the audit plan has been completed in the prescribed manner.

2.7 Stage wise action for audit

The processes involved in conducting GST audit are enumerated below for the ease of the officers involved in the auditing.

i. Creation of Audit teams.
ii. Preparation of schedule on the basis of the risk assessment list provided by Additional Commissioner (Tax Audit Unit). The same is divided into annual and quarterly audit schedules.
iii. Allotment of taxpayers to the audit groups.
iv. Intimation to the registered person (GST ADT-01).
v. Reviewing the taxpayer data - Tax Payer at a Glance (TAG), Registration, returns, Payments, Dispute Resolution, Audit Report Utility, E-way bills & third Party data if available.
vi. Conducting desk review in offline / online mode (wherever available) and uploading the result of desk review.
vii. Preparing the audit plan in offline / online mode (wherever available) and uploading the audit plan.
viii. Carrying out verification and uploading the verification report, within twenty four hours of completion of audit.
ix. Uploading the draft audit report (DAR) for the monitoring committee meeting (MCM), within 10 - 15 days
x. Examining the audit paras in MCM.
xi. Uploading the minutes of the monitoring committee meetings (MCM), within twenty four hours of the meeting.
xii. Uploading final audit report, within thirty days of the Meeting.
xiii. Communicating the audit report to taxpayer (ADT-02).
xiv. Communicating to the registered person the future course of action in case of contested paras.

CHAPTER 3
SELECTION OF REGISTERED PERSONS FOR AUDIT

Types of audit in GST

Audit by Tax Authorities

3.1 Selection of Files for Audit

1. Following parameters can be adopted for selection of GST taxpayers for audit: Taxpayers maintaining excess ITC continuously during the year. Taxpayers showing fall in taxable turnover in spite of increase in purchase continuously for two return periods. Taxpayers showing low gross profit which is not in tune with the line of business. Taxpayers whose Sale/Purchase ratio is less than 1.0 over last 12 months. Taxpayers conceding substantial quantities of closing stock as compared to purchase and sales.
2. Woks contractors.
3. Manufacturing units showing gross profit (G.P.) less than 10% Taxpayers showing substantial changes in trade practices – e.g.:- excessive stock transfer, material decline in interstate purchases, material increase in exports/sales to exporters. Taxpayers having complex transactions such as exports, consignment sales, branch transfers, transit sales etc.
4. Based on third party information like, Banks, Income Tax, Service Tax, Central GST, manufactures other Government departments etc.
5. Based on local intelligence or serious complaints from public Taxpayers dealing in evasion prone commodities showing less growth by 10% from average growth rate in that area of circle jurisdiction.
6. Return defaulters and cancelled taxpayers having active transactions as per GSTN data.
7. Revised the business intelligence (BI) tool revealed form Red Flag reports of GSTN.

3.2 Preparation for Audit

Once the case is selected for audit and an authorization by the authorised officer, nominating the Audit Officers have been issued, the officers will have to prepare for the audit. The officers' referred to in subsection (1) of section 65 may conduct audit at the place of business of the registered person or in their office as per section 65 (2) section 65 (3) insists that the registered person shall be informed by way of a notice not less than fifteen working days prior to the conduct of audit. The audit shall be completed within a period of three months from the date of commencement of the audit. It means the date on which the records and other documents, called for by the tax authorities are made available by the registered person or the actual institution of audit at the place of business whichever is later. If the Commissioner is satisfied that the audit in respect of such registered person cannot be completed within three months, he may for the reasons to be recorded in writing extend the period by a further period not exceeding six months.

- Risk analysis need to be done and the risk factors have to be identified. This includes scrutiny of data available in GST backend such as invoice verification, e-way bills mismatch found between GSTR 1, 3B and GSTR2A closing stock statements annual return, audit statement, credit note, debit note, refund received, ITC claimed etc. The compliance level of the taxpayer viz., belated filing and non filing of the returns and statutory documents to be verified. The taxpayer details should be checked for branches, commodities dealt with, present status, audit objections, methods of tax payment opted by the taxpayer etc. The assessment records including Registration File, Assessments completed Crime files / operations research (OR) files, notices issued, penalty imposed, Refund Application Pending/Granted etc. should be obtained from the respective office. Tax performance of the Taxpayer for the past five years should also be analysed.
- A Taxpayer folder shall be prepared with as many as possible information/inputs gathered from the available sources including external agencies. Gather all available information. This ensures that as detailed information as possible and can be used for the actual audit, the information collected needs to be confirmed. Review all gathered information. This helps to identify whether or not the audit scope should be redefined. As this is the final step prior to the actual audit, the auditor must ensure that all key issues are addressed and that a risk hypothesis has been developed. As the auditor will now begin to develop a position, any necessary adjustments to the audit scope should be made.
- Acquire basic knowledge about the nature of the trade or industry. In the case of a manufacturing concern, the officer should study the manufacturing activities involved, the raw material used, the input-output ratio etc. Necessary data for

this may be gathered from the Department of Industries and Commerce, Taxpayer Community, Publications and Internal etc.

- The officer should have a general awareness about the major suppliers to the taxpayer and his major buyers/clients, the peculiarity of the commodities detail with by him viz., general demand, price and gross profit ratio prevailing in the market, whether B2B or B2C Sales, whether the commodities dealt with are prone to misclassification / evasion, proceedings pursuant to previous audit visits, pattern of suppression detected by enforcement agencies during the previous years. Export document submitted etc.
- Similarly separate action plan should be devised for traders, manufacturers and works contractors, service providers. Construction sites can be visited to ascertain the progress in work / completion, number of units of flats / villas etc.
- Pre visit discussion with the team members and the designated officer should be conducted in order to identify the care areas to be focused during the audit visit.
- Separate action plan for the principal business place and branches/godowns shall be devised based on the careful consideration of the materials in hand and the resources available. It has also to be decided as to whether the visit needs to be confined only to the principal place of business.

3.3 Drawing up an Audit Plan

The first step in creating an audit program is to develop an audit plan. Audit plan is the most important stage before taking up audit verification. At this stage, the auditor is in a position to take a reasonable view regarding potential risk areas, abnormal trends and unusual developments, which need detailed verification. The important steps comprised in an audit plan are as follows.

(1) Determine audit subject: - To identify the area to be audited.
(2) Define audit objective: - Identify the purpose of the audit.
(3) Set audit scope: - Identify the specific system function or unit of the organization to be included in the review.
(4) Perform pre-audit planning: - Conduct a risk assessment, which is critical in setting the final scope of a risk based audit. It is a good practice because the result can help the individual selector (IS) audit team to justify the engagement and further refine the scope and preplanning focus. Interview the auditee to inquire about activities or areas of concern that should be included in the scope of the engagement. Identify

(5) regulatory compliance requirements. Once the subject, objective and scope are defined, the audit team can identify the resources that will be needed to perform the audit.
(6) Determine steps for data gathering: - At this stage of the audit process, the audit team should have enough information to identify and select the audit approach of strategy and started developing the audit programme.

Some of the specific activities in this step are;

a) Identify and obtain departmental policies, standards and guidelines for review.
b) Identify any regulatory complaints requirements.
c) Identify a list of individuals to interview.
d) Identify methods to perform the evaluation (including tools)
e) Develop audit tools and methodology
f) Develop test scripts
g) Identify criteria for evaluating the rest.
h) Define a methodology to evaluate the test and its result is accurate.

Audit plan is not a routine list of checks which can generally be exercised, but Is an exact formulation of issues selected for detailed scrutiny in respect of a particular assess on the aforesaid desk review and risk analysis base on the above. As far as possible audit plan should be a clear plan of action and should be reduced to a formal, it should be consistent with the scale of operation of an assesse and the reasons for selection.

How the issues are pin-pointed far an audit plan is illustrated below:-

(a) Under-valuation of taxable goods by excluding any specific component of gross amount charged.
(b) Suspected discounts.
(c) Misclassification between taxable and non taxable goods.
(d) Admissibility aspect in respect of capital goods for which ITC was availed.
(e) Discrepancy /deficiencies in billing evident from materials received from enforcement or otherwise.
(f) Low gross profit which is not in tune with the line of business.
(g) Input tax /output tax (IPT/OPT) ratio which is more or less equals to 1 for the last two years.

(h) E-way bill transactions not accounted/unusual cancelation of e-way bills.
(i) Purchase or sales invoices not accounted.
(j) Unusual movement pattern of goods as per e-waybill/ delivery chalan vis a vis return particulars
(k) Variations between annual return with audited statements
(l) Information received from external agencies including Banks.

3.4 Procedure for the conduct of Audit visit

The procedures to be followed in conducting audit visit are prescribed in section 65 & 66 read with Rule. 101 & 102 of HPGST Act & Rules.

1. Obtain authorization for conducting audit visit from the designated officer.
2. Issue Form GST ADT-01 notice to the taxpayer concerned intimating the date for audit, which should not be a date within fifteen days from the date of acknowledgment of the notice. Records to be produced at the time of audit visit should be specifically mentioned in the notice.
3. Visit taxpayer on the appointed date and conduct inspection and verification of records.
4. On completion of the audit the proper officer shall inform the findings of audit to the registered person in accordance with the provisions of sub section 6 of section 65 in Form GST ADT-02.
5. The audit officer should submit a report to the designated officer on the audit conducted at the business place of the dealer.
6. The designated officer should take appropriate decision whether to proceed under section 65 or not. If the audit conducted under sub section (1) results in detection of tax short paid or erroneously refunded, or input tax credit wrongly availed or utilized, the proper officer may initiate action under section 73 or section 74 as per the situation.

3.5 Conduct of Audit Visit

As per rule 101 (2) read with section 65, the proper officer shall issue a notice in FORM GST ADT-01 minimum fifteen days prior to the commencement of audit in accordance with the provisions of the Act.

The actual procedure to be followed during audit visit may vary from trade to trade and from industry to industry and in service sectors depending on the purpose of the visit size of the business manufacturing process involved, services provided, complexity of the accounts kept, reputation of the taxpayer etc. Which the officers may finalize, in consultation with the authorized officer. But there is certain general point to be borne in mind while conducting audit visits. The proper officer authorized to conduct audit of the records and the books of the registered person shall, with the assistance of the team of officers and officials accompanying him, verify the documents on the basis of which the books of accounts are maintained and the returns and statements furnished under the provisions of the Act and the Rules made there under, the correctness of turnover exemptions and deductions claimed, the rate of tax applied in respect of the supply of goods or services or both, the input tax credit availed and utilized refund claimed, and other relevant issues and record the observations in his audit notes.

Note sheets and check notes: Keeping good note sheets is an essential component of an effective GST audit. If the auditor is to recollect what he has done at an audit, it is not sufficient to write up the notes at a later stage. Once this practice is adopted it soon becomes a routine. Start each visit with the dealer's details, date, where the visit took place, the time it started and subsequently finished and who was interviewed. Record precisely what has been checked, nothing more and nothing less. Record any problems, in particular anything that appears fraudulent.

Interview: Perform a detailed and structured initial interview with the taxpayer. Record the information obtained from the taxpayer in the interview, and subsequently from the taxpayer's records, in the note sheets. Use the prepared basic questions as the start point for the interview and all other questions should come from these answers. The accounts will only show the auditor what the taxpayer wants him to see and whether has been declared, any abnormalities will be highlighted from the interview

The audit team must conduct itself in a professional manner without giving any scope for complaints of harassment. Its conduct must be courteous and fair.

(a) The visiting officers should first contact the person in authority (director, manager, partner, proprietor etc.)
(b) The person contacted should be asked to confirm whether the taxpayer's information available with the officer, is correct.
(c) Reasonable opportunity must be provided to taxpayer to produce relevant record and answer Audit team queries.

(d) The officer should ascertain, the problems, if any, faced by the taxpayer in complying with the provisions of law and should attempt to help the dealer with genuine problems.

Care should be taken not to answer hypothetical questions or to enter into arguments.

The officer should not also give answer on issue, if he is not sure about the correct answer. In such cases the officer should arrange to give answers in due course.

(e) The person in authority should be asked to nominate a person responsible for the maintenance of accounts and filing of returns to furnish the audit officers with the required information.

(f) The officer should ascertain the activities involved and inspect the business premises, factory, warehouse etc to establish the equipment/ capital goods in use and the out puts produced by the taxpayer.

(g) Details available with the officer should be cross verified with reference to the records maintained by the taxpayer to see whether the statements already furnished tally with the maintained accounts.

(h) The officer should examine whether goods have been utilized for non-business purpose and if so whether liability to reserve tax has been conceded.

(i) The officers should also examine whether the deduction claimed as discounts is actually permissible.

(j) The audit team should verify the invoices to see whether the rates applied are correct, whether the taxpayer is keeping parallel set of tax invoices, tampering with/, whether there is non-disclosure of place of business/godown, whether there is false claim of exempted sales, exports, interstate sales, interstate stock transfer (OUT) etc.

(k) All auditing checks should be completed on the basis of test-checking and sampling techniques. The test checks should commence in the risk areas by selecting a particular tax period.

(l) If the results are satisfactory, move on to the next area for testing; if unsatisfactory, the checks should be extended to identify the full and accurate extent of tax evasion, so that an assessment is soundly based, and will stand the test of review/ appeal. Select any transaction by sampling method and trace its movement from the beginning through various sub systems. The auditor should verify this transaction in the same sequence as it had moved. By this method the auditor can get a feel of the various processes and their linkages.

(m) The team may take extracts from the accounts or other records which, in the opinion of the officer, are to be included in the Taxpayer's folder. Auditors can also authenticate the accounts/ records/ documents evidencing the transaction putting their so as to ensure that records/ evidence is not destroyed or altered. Details of accounts/ records documents authenticated should be recorded in the note sheet.

(n) The officer should verify whether the taxpayer is adopting any dubious methods for evading tax which, in the opinion of the officer, would necessitate a further detailed investigation or inspection. In such cases the officer should not seek any clarification from the Taxpayer (as evidences may be lost) nor should he mention anything in the reports. This should be kept confidential for further confidential investigation or for making any surprise inspection. However, such matters should be reported in writing to the immediate superior and the authorized officer.

(o) The audit useful information concerning the Taxpayer should be noted.

(p) Any other useful information concerning the Taxpayer should be noted.

(q) On conclusion of audit the audit officer should again meet the person in authority and thank him for the cooperation. He should also be informed of the defects noted during audit and the steps to be taken for rectification. Indications about malpractices, forgery etc noticed should not, however, be given, since further verification or investigation may be adversely affected.

(r) Where there is a lack of cooperation, failure to provide information or any unusual circumstances, like suspicion of huge stock variation etc. the auditor should consider about referring the case to intelligence wing.

3.6 Important areas of Audit

1. Auditing of inputs:

a. Obtain records of all taxable purchases from normal GST taxpayers
b. Obtain records of all taxable purchase from registered taxpayers other than normal GST taxpayers (composition tax payers) and un-registered dealers.
c. Obtain records of all out of state inward supplies
d. Obtain records of all imports from outside the country
e. Obtain records of all non-taxable supplies
f. Obtain records of all branch transfers/consignment notes.
g. Identify all input figures (value & tax) from the taxpayer account; compare the figures with the GST return.

h. Identify source documents – Original tax invoices, and debit and credit notes. Check entries in records to source document on a sample basis.
i. Check stock on hand and capital goods for evidence that goods shown in purchase records are on hand.
j. Check manufacturing records to establish that goods in purchase records have gone into production
k. Check cash records for evidence of payments
l. Check bank statements.
m. Check GSTR 3B in relation to GSTR 1 and GSTR 2A.
n. Check particular of invoice
o. Reversal of input tax credit for non-payment in 180 days
p. Review e-way bill and match with invoices.

The above checks are not exhaustive and officers should complete any additional audit checks considered to be relevant.

2. Auditing of outputs: A process of audit checks the adequacy & effectiveness of the process of controls established by procedures, work instructions, flowcharts, training & process specifications. By its very nature auditing implies an action such as transforming inputs into outputs.

a. Obtain records of all taxable outward supplies at each tax rate
b. Obtain records of all zero-rate outward supplies, international exports and inter-state outwards supplies.
c. Obtain records of all exempted outward supplies.
d. Obtain record of all branch transfers / consignments notes
e. Compare the outward supply figures in GST accounts with that in returns.
f. Check the outward supply price- check whether freight, pre-sale expenditure is forming part of the output or not.
g. Verify the deductions from value of supply like discounts, rebates.
h. Identify source documents - tax invoices, debit & credit notes-check entries in records to source documents on a sample basis – selected periods/selected items.
i. Check manufacturing records such as daily stock register stocks and delivery records.
j. Require production of own use goods record. Verify content and accuracy.
k. Establish the basis of discounts and promotional offers.

l. Check records of consignment sales and branch transfers. Suppression of these transactions will increase the amount of input tax that can be claimed.

m. Check liability of all items claimed to be exempted.

n. Check Bank accounts and ensure that the details in the basic records agree with the deposits, transfer and withdrawals.

The above checks are not exhaustive and officers should complete any additional audit checks considered to be relevant.

3. Auditing of stock:

a. Stock taking can be resorted to in case of taxpayers dealing in retail shops or traders of evasion prone goods like plywood, timber, electrical goods, marble, tiles, iron & steel and glass etc.

b. Stock taking need not be resorted to in all audits. Stock taking may not be feasible in audits of a manufacturing company or a big distributor or a limited company with many branches.

c. Excess in stock would indicate purchase made without proper bills, i.e., purchase suppression and any deficit in physical stock is attributable to the possible suppression of output or outward supply of goods.

4. Auditing of final accounts:

Indicative list of items to be examined in the Trial Balance / Profit and Loss Account / Balance Sheet / Audit Report.

The perusal of the trial balance could achieve the following:

(a) Familiarization with chart of accounts/account code and understand as to what extent the information is detailed and integrated with other subsystems; few sample journal vouchers may also be seen to understand the information mentioned therein.

(b) Understand the grouping of sub accounts under main accounts for the purposes of summarization into profit and loss account and the balance sheet.

(c) Identification of accounts, which have a prima facie relevance for tax payment (may be direct or indirect). These accounts may have to be seen in detail at later stage of audit depending upon the result of subsequent audit processes;

(d) Understand the tax accounting system in so far as it pertains to tax payment and treatment of ITC;

During the study of the trial balance / profit and loss account the following areas could be studied in detail,-

(a) All income accounts in the profit and loss accounts:

Normally, the profit and loss accounts would show a consolidated entry for business income from all sources. According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately.

To begin with, audit officer should call for the groupings of business income shown in the profit and loss account. The said groupings would show the different heads under which the incomes have been accounted for. They should carefully study the nature of business income – some of which may have accrued from the outward supply of taxable goods and the balance from the outward supply of non-taxable goods. The exact nature of these may be determined from the supporting documents such as vouchers, bills or contracts. etc.

Expense Accounts:

Scrutiny of expense accounts would enable the audit officer to identify major expenditure heads like freight, salaries, utility expenses, business promotional expenses, wages with reference to muster rolls. In specific terms, such scrutiny may be useful to identify any escaped turnover and business viability.

Similarly, the perusal of the balance sheet could reveal, accounting principles/policy and notes on accounts and sale of fixed assets.

On completion of the audit visit, the audit officer should submit a report on audit to the authorized officer concerned and that officer should take appropriate decision whether to proceed under section 65 or not. The tax authorities will have to intimate about their findings with reasons, duties and obligations of the auditee within 30 days of completion of their audit.

The tax authorities can send a demand cum show cause notice in the following cases to a registered person and give an opportunity to the tax payer to explain why the tax payer will not pay the demanded, pointed out along with interest and penalty.

a) The tax payer has not paid proper amount of tax what he should have paid otherwise.
b) The tax payer has paid less amount of tax what he should have paid otherwise
c) Refund of tax made wrongly to the Taxpayer.

d) Input tax credit wrongly availed or utilized.

3.7 Findings of Audit.

On conclusion of an audit, the officer will inform the taxable person within 30 days of

a) the findings
b) their reasons, and
c) the taxable persons' rights and obligations

If the audit results in detection of unpaid/short paid tax or wrong refund or wrong input tax credit availed, then demand and recovery actions will be initiated.

3.8 Audit Assessment

All cases audited may not lead to assessment. The procedure in completing the assessment resulting from audit is dealt under section 60, 61, 62, 63, 64, 73 & 74 of HPGST Act 2017 read with Rules 98, 99 and 100 of HPGST Rules 2017.

Audit assessment will be justified in the following situations:

- Where the details furnished in the return are found to be incorrect, either because output tax reported is too low or because input tax claimed is too high.
- Where the taxpayer cannot produce records to substantiate the outward supplies, inward supplies, closing stock, or claims of inputs tax, exemption or refund.

1. Deduction is claimed in respect of discount where discount had not actually been give nor where the discount is not allowable.
2. Exemption has been wrongly claimed or where taxable outward supplies are misclassified as non-taxable outward supplies or outward supply of goods/services taxable at higher rate are mis-classified as that of goods/services taxable at lower rate.
   1. Goods are appropriated for non-business purposes; but no reverse tax is admitted.
   2. Purchase suppression or sales suppression is deleted.
      The procedure prescribed under section 65 read with rule 101 shall be strictly followed in completing the assessments.

- The natural justice shall be strictly complied with. Any assessment shall be preceded with pre-assessment notices clearly specifying the irregularities or defects noticed and the manner in which the assessment is proposed to be completed. The officer should ensure that the notice is duly served on the taxpayer properly. In case the notice cannot be served in person or by post either in the business address or in the residential address, It should be served by affixture in the last known address of the taxpayer.

- The reply if any filed by the taxpayer shall be judiciously considered and if necessary the proposal should be amended if the officer finds some/all of the taxpayers assertions are justified; and speaking orders should be issued accordingly.
- If no response is received after 15 days on serving such notice the proposal should be finalized on the basis of the material available on records and orders should be issued.
- Interest u/s 50 of the HPGST Act, on the under declared tax should be calculated for each return period at the rate of 1% for each month or part of the month, from the due date to the date of order.
- While finalizing such assessments the officers should ensure that when best judgment assessment is done for more than one return period after the expiry of the year in which the return period falls, the assessment should be made by a single order. What is contemplated is not an annual assessment; but a single order narrating assessment for each return period. However only a single demand notice need be issued for the demand created in the block assessment order.

3.9 Special Audit

Section 66 of HPGST Act 2017 read with Rules 102 of HPGST Rules 2017 stipulates that at any stage of scrutiny, inquiry, investigation or any other proceedings before him, any officer not below the rank of the Assistant Commissioner, having regard to the nature and complexity of the case and the interest of revenue, is of the opinion that the value has not been correctly declared or the credit availed is not within the normal limits, he may, with the prior approval of the Commissioner, direct such registered person by the communication in writing to get his records including books of account examined and audited by the chartered accounted or a cost accountant as may be nominated by the Commissioner.

The Assistant Commissioner may initiate the special audit, considering the nature and complexity of the case and interest of revenue. If he is of the opinion during any stage of scrutiny/inquiry/investigation that the value has not been correctly declared or the wrong credit has been availed then special audit can be initiated. It can be conducted even if the Taxpayer’s books have already been audited before. The special audit will be carried out by a chartered accountant or a cost accountant nominated by the Commissioner. The audit report will be submitted within 90 days. This may be further extended by the tax officer for 90 days on an application made by the taxable person or the auditor.

The taxable person will be given an opportunity of being heard in findings of the special audit. If the audit results in detection of unpaid / short paid tax or wrong refund or input tax credit wrongly availed then demand and recovery actions will be initiated.

CHAPTER 4

AUDIT - PREPARATION AND VERIFICATION

4.1 Profiling of registered person:

4.1 Audit requires a strong database for profiling each registered person so that risk-factors relevant to a registered person may be identified in a scientific manner and audit is planned and executed accordingly. Some of the relevant data has to be collected from the registered person during the course of audit, while the rest is to be extracted from the, **application for registration**, **registration documents and returns filed by the registered person as well as from his annual return,** e-way bills, reports/returns submitted to regulatory authorities or other agencies, Income Tax returns, contracts with his clients, audit reports of earlier periods as well as audits conducted by other agencies, like office of C&AG, etc. most of which will be available in GSTN.

4.1.2 A comprehensive data base about a registered person to be audited is an essential pre-requisite for selection of units as well as for undertaking preliminary desk review and effective conduct of audit. A substantial amount of data is already available in GSTN. Some of the data like those contained in annual financial statements keeps changing every year. Utility named Taxpayer at a Glance (TAG) containing all the available information of the registered person will be accessible to the auditor.

4.2 Reviewing the taxpayer data: The first step towards an effective audit is to review all relevant information about the registered person. **Annexure GSTAM – I** contains details of all the relevant data required for review**.**

4.2.1 Whenever GST audit of a registered person is taken up, the audit team conducting the audit should review the data already available and the data that is not available and collect the information not available and update the data of the registered person.

4.2.2 The Planning and coordination section of the Audit Commissionerate shall make available all the information of the registered person selected for audit to the respective audit group as per the said Annexure GSTAM I

4.2.3 The information of each registered person should be updated periodically after completion of each audit. The audit working papers, audit report, duly approved during the audit monitoring meeting, along with the latest documents should be filed properly in a file of the registered person.

4.3 Allocation of audits amongst the audit parties:

The audit schedule should also mention the group no. of the audit groups to conduct audit of a particular unit. It must be ensured that the group members of the audit party are fully trained for conducting audit in accordance with the guidelines in this manual.

4.4 Action to be taken by the audit Group/Team:

Once the audit schedule, with group allocation, is finalised, the action shifts to audit groups. The group should have adequate time to complete the preparation for audits to be conducted as per the audit schedule. All units listed to be audited should be intimated at least 15 days before the commencement of audit verification in their premises. A format of the letter **(ADT – 01)** intimating the registered person about the audit and the records/documents to be provided to the auditors has been notified under HPGST Rules, 2017 provided in **Annexure - GSTAM-II** of this manual.

4.5 Desk Review

4.5.1 Objective:

The desk review lays emphasis on gathering data about the registered person, his operations, business practices and an understanding of the potential audit issues, understanding his financial and accounting system, studying the flow of materials, cash and documentation and run tests to evaluate the vulnerable areas. The preliminary review assists in development of a logical audit plan and focus on potential issues.

4.5.2 This is the first phase of the audit programme done in the office. The idea is to gather as much relevant information about the registered person and its operations, as is possible, before visiting the unit. A good desk review under the supervision of senior officers is critical to the drawing up of good audit plan.

4.5.3 The auditor should refer to the information of the registered Taxpayer **(Annexure-GSTAM-I)**. Study of the information could throw up important points, which may merit inclusion in the audit plan. In addition, the auditor should also obtain the latest Trial Balance Sheet, Tax Audit Report, Annual Financial Statement, Cost Audit Report or any such document prepared or published after the last updating of information. From the scrutiny of these documents, certain points may further emerge for inclusion in the audit plan. The auditor should also incorporate the result of any parameters brought to light by risk analysis into the desk review for pin pointing specific issues for scrutiny during audit. An illustrative list of scrutiny of important documents from the audit angle is given at **Annexure –GSTAM-III)**.

4.5.4 All receipts of the Taxpayer need to be tested for GST liability. Analysis of exports turnover, turnover of non-taxable and exempted goods and services gives a clear picture of the amounts which were not considered for tax payment. It also helps to conclude whether such exemptions claimed are proper or not. (Part III (I) of working papers in Part B {for services} of GSTAM-VIII refers). The auditor should reconcile the ITC credit availed as shown in GSTR 1 with that shown in GSTR 2A and identify any gaps in the ITC availment. This gap should be mentioned in the audit plan for verification at the time of audit.

4.5.5 Cost Accounting Records/Cost Audit:

(i) In respect of Regulated sectors like Telecommunication, Electricity, petroleum and Gas, Drugs and Pharma, fertilizers and Sugar, Cost audit requirement has been made subject to a turnover based threshold of Rs 50 crores for all products and services and Rs 25 crores for individual product and services.

(ii) In respect of non-regulated sectors - The threshold is Rs 100 crores and Rs. 35 crores respectively.

For latest amendments and existing norms the Companies (Cost Records and Audit) Rules 2014 may be referred to.

4.5.6 From the registered person master file **(**RPMF), trial balance and annual financial statements (profit & loss account and balance sheet) it is possible to work out important financial ratios. The said ratios should be compared with the ratios of earlier year and wherever significant variation is noticed, these areas may be selected for audit verification. It may be kept in mind that any adverse ratio is only an indicator for verification of such an area and there may be valid reasons for the same. Therefore, only on the basis of such an adverse ratio, a point for verification can be selected. An illustrative list of important ratios is given at **Annexure-GSTAM-IV**.

4.5.7 Reconciliation of data with third par-ty information:

GST payment shown in the GSTR-9 returns can be reconciled with that shown in the financial accounts. Further, from the reconciled figure of GST payment, value of the sales can be worked out. This can then be compared with the sales figure shown in financial records. The difference, if any, must be analysed. The unit assessable value of the registered person can be compared with that of another registered person supplying the same supply. This method would give an idea whether the valuation and duty calculation system of the registered person is a high/low risk area. A comparative chart of items from financial statement to be drawn for reconciling the data is annexed as **Annexure-GSTAM-V.** The auditor should check the data available in GSTR-9 returns with other documents such as gross trial balance, income tax returns, annual audited accounts, income tax audit report etc. and to carry out a preliminary reconciliation for the purpose of identifying any amount that might have escaped GST.

4.5.8 Revenue Risk Analysis:

Risk analysis is a method of identifying potential revenue risk areas by employing modern techniques. It can be carried out by (i) reconciling various specific financial data, comparing it with different business accounts/documents, (ii) deriving certain data and comparing with the actual figures of the financial documents (iii) comparing the key data figures of the unit with the average of all industry figure of similar kind (if available) or past figures of the same registered person. The result of revenue risk analysis should be filled in the relevant column of working papers.

4.5.9 Trend Analysis:

Trend analysis is a type of computational support needed for the analysis preparatory to planning, by analysing historical data and working out future projections. Historical data is analysed to discover patterns or relations that would be useful in projecting the future production, clearances and values etc.

4.5.10 For audit purposes, either absolute values or certain ratios are studied over a period of time to see the trend and the extent of deviation from the average values during any particular period. The analysis of trends as mentioned in the relevant table of working papers may be carried out. (refer Part A III (9) & Part B III of GSTAM- VIII).

4.5.11 For audit of traders, a check list is provided in **Annexure XIII**. For audit of composite dealers, a check list is provided in **Annexure XIV.**

4.6 Audit Plan

4.6.1 The objective of preparing an audit plan is to outline a logical series of review and examination steps that would meet the goals and standards of an audit in an efficient and effective manner.

4.6.2 Audit plan is the most important stage before conduct of audit. All the previous steps are actually aimed at preparation of a purposeful Audit Plan. Therefore, it is important that all previous steps are completed and the relevant working paper of each of the steps is filled up before commencing preparation of an audit plan. By now, the auditor is in a position to take a reasonable view regarding the vulnerable areas, the weak points in the systems, abnormal trends and unusual occurrences that warrant detailed verification. Certain unanswered or inadequately answered queries about the affairs of the registered person may also be added to this list.

4.6.3 Audit plan should be a detailed plan of action, preferably in a standard format. The audit plan should be consistent with the complexity of the audits (**Annexure –GSTAM-VII).**

5.6.4 The summary results of desk review, along with the completed working papers, should be submitted to the Deputy/Assistant Commissioner for approval and guidance, if any.

4.6.5 The audit plan must be discussed with the Joint Commissioner of the concerned zone and should be finalised after approval by the Commissioner/ Additional Commissioner as the case may be.

4.6.6 The audit group should put up documents received, along with filled in questionnaire and working papers in the prescribed proforma, related to **top five units of each audit circle** mentioned in the annual plan for audit coverage to the Commissioner and the rest to the Additional / Joint Commissioner through Deputy / Assistant Commissioner in-charge of zone, for approval of the audit plan, after carrying out preliminary reconciliation, identifying discrepancies, if any, and carrying out detailed examination of the records and information (including that already captured in the master file of registered person).

4.7 Audit Verification

4.7.1 The objective of audit verification is to perform verification activities and document them in order to obtain and record audit evidence. The verification techniques must be appropriate for audit objectives identified in the audit plan. It is important that in an audit, the objections that are raised are technically correct and stand up against scrutiny or challenge. Law being open to interpretation, it may be difficult to test the technical correctness of all objections. However, it should be correct to the extent that any professional auditor, working with and having access to the same research material would likely to come to the same conclusion. It also means that the auditor must demonstrate, in writing, the research and reasoning used to base his/her application of legislation, policies and jurisprudence.

4.7.2 Audit verification involves verification of data and actual verification of documents submitted at the time of desk review, verification of points mentioned in the audit plan.

4.7.3 Gathering of information of the registered person - This may be carried out as per the activity of the taxpayer as found out during the desk review. The task mentioned herein below may not be relevant in case of all taxpayers. The auditor should evaluate the necessity of carrying out these tasks and mention the relevance in the working paper for carrying out or not carrying out the same.

4.7.4 Evaluation of the Internal Controls.

The objective of review of internal controls is to assess whether the registered person has reliable systems and controls in place that would produce reliable accounting/business records. Most medium to large companies have enterprise resources planning (ERP) systems in place, which account for all transactions from entry of raw material to clearance of final products. Auditors must have a look at these systems and more relevantly determine whether software being used exclusively for the transactions related to Goods and Service Tax matters is integrated to the main ERP system or is running parallel to the main ERP. This assessment would be used by the auditor to decide on the extent of verification required and to focus on areas with unreliable or missing controls. It should be noted that this review must be commensurate with the size of operations. A small registered person might have little in terms of internal controls where as a large registered person would have sophisticated internal controls in place. If the internal controls are well designed and working properly, then it is possible to rely on the books maintained by the registered person. The scope and the extent of the audit can be reduced in such a case. The reverse would be true if the internal controls are not reliable. Audit should evaluate the soundness of internal control of sub-systems/areas like sales, purchase tax, accounting etc., and grade them as good, acceptable and poor.

4.7.4.1 In this regard, an auditor should normally examine the following:

i. Characteristics of the company's business and its activities.
ii. System of maintenance of records and accounts.
iii. Identifying the persons handling records for accounting purposes.
iv. Allocation of responsibilities at different levels.
v. System of internal checks.
vi. System of movement of documents having relation to duty/tax assessment.
vii. Inter-departmental linkages of documents and information.
viii. System of own internal audit.

4.7.5 Techniques for evaluation of the Internal Controls.

(a) **Walk-through:** This is a process by which the auditor selects any transaction by sampling method and traces its movement from the beginning through various sub systems to the end. The auditor verifies this transaction in the same sequence as it had moved. By this method the auditor can get a feel of the various processes and their inter linkages. It is also a useful method to evaluate the internal control system of a registered person. The auditor can undertake walk through process of sales, purchase, GST, account adjustment systems etc., certain model 'walk-through' routes are given in **Annexure-GSTAM-VI**. Similarly, key controls may be examined for recording of all cash transactions: these controls may include scrutiny of numbered cash transaction invoices, daily reconciliation of cash invoices, separation of taxes etc. Undertaking a 'walk-through' and conducting ABC analysis during this process would help the auditor in evaluating the system of internal controls in a scientific manner.

(b) ABC Analysis: It is a known fact that in any field of activity an enormous data is generated and all data is not equally important. In order to filter out the irrelevant or relatively insignificant data, various techniques are applied. The ABC Analysis is one of such data management techniques. This technique is particularly useful when auditors are required to scrutinise and examine a large volume of data/documents within a limited time. In ABC analysis the whole data population is classified into three categories (i.e. A, B and C categories) based on the importance, as given below:

- A-category is the class of data that is the most important from the point of view of managing and controlling the same.
- B-category is the class of data, which should invariably be controlled, but the degree of control is not as intense as for A-category.
- C-category is the class of data, which has far less revenue- implications and can be controlled by suitable test-checks.

The auditor can apply ABC analysis especially where the quantum of data/ information to be analysed is voluminous. In such a case, the auditor can classify them according to their tendency towards potential risk into A, B and C categories. To give an example, transactions with top five customers/clients of a registered person may alone be taken up for detailed examination by auditors. Similarly, while verifying credit utilization by the registered person, documents relating to the receipt/procurement of major inputs may be examined. The technique of ABC analysis can also be suitably applied for evaluating the systems of internal controls while carrying out verification. The above steps viz., tour/study or evaluation of internal controls/walk through etc., are required to be carried out during the stage of actual audit verification.

4.7.6 The auditor should invariably record the findings of the above steps, in the working paper **(Annexure –GSTAM-VIII)**.

4.7.7 Verification of points mentioned in the audit plan:

In view of emphasis on trade facilitation, intelligent enforcement and providing non-intrusive environment to taxpayers, it has been decided to move from the present system of premises based audit to desk-based (office) audit in case of small category of taxpayers. Such desk based audit may be carried out on the basis of information / data made available to them. However in case of non-cooperation by the taxpayers, premises based audit may be carried out after approval by the Commissioner. Further in cases where it is felt at any stage of audit that there are inherent weaknesses in the internal control system of the taxpayers, the officers may switch to premises based audit with the approval of the Commissioner. However, in respect of large and medium category of Taxpayers, the premises based audit has to be conducted. The auditor should conduct the verification in a systematic manner, following the sequence of steps envisaged in the working papers. While conducting audit verification, special care should be taken to examine all those issues pointed out in the audit plan. The auditor should try to determine whether the apparent weaknesses in the internal control system of the manufacturer/service provider have led to any loss of revenue. He should also identify the procedural infractions on part of the registered person, which are recurrent in nature and which may obscure a significant fact. During the process, he must cross check the entries made by the registered person in various records and note discrepancies, if any. In all cases involving discrepancies, the auditor should make detailed enquiries regarding the cause of the discrepancies and their revenue implication.

4.7.8 The auditor should also examine the documents submitted to various Government departments/ Regulatory Authorities such as Customs, Income Tax, Banks, etc. by the registered person. This should be used in cross verification of the information filed by the registered person for the assessment of GST. **Annexure GSTAM-IX** gives utility of some of the documents/ registers of the registered person that can be made use of by the auditor during the course of verification. Extensive use of information available with open sources such as electronic and print media, internet etc. should also be resorted to for verification of information filed by the registered person.

4.7.9 The audit verification gives maximum opportunity to the auditor to go through the registered person's records in his unit. Therefore, auditor may come across a new set of information or documents, not earlier known, during any of the earlier stages. Further, while examining an issue, the auditor may come across a fresh issue also requiring detailed examination. In such a situation, the auditor should, after obtaining the approval of his Jt. Commissioner, go beyond the scrutiny envisaged under the audit plan and record the reasons for doing so. Despite audit verification being a structured process, it is flexible enough to accommodate needs on the spot. At the end of each entry in working papers, auditor must indicate the findings. If any of the planned verifications is not conducted, the reasons for the same must also be recorded. While the process of verification for each audit would be unique in terms of Audit Plan, it should involve some general steps as discussed below:

4.8 Physical Verification of Documents: A detailed scrutiny of the financial records of the registered person becomes imperative, if any issue is noticed at the time of Desk Review. The documents to be examined include Annual Financial Accounts containing Director's Report, Statutory Auditor's Report, Balance Sheet and Profit & Loss Account. If necessary, the auditor must go into details of the figures mentioned in the Annual Financial Statements and for that he must examine trial balance, ledgers, journal vouchers, 26AS statement, invoices and e-way bills. He may also examine Cash Flow Statement, Groupings, Cost Audit Report and Tax Audit Report. He should also check whether the registered person is maintaining the statutory records as required under various statutes especially under the Companies Act, 2013.

4.8.1 Audit objections raised must be fully supported by documentary and legal evidences. This will greatly help in explaining and discussing the objections with the registered person and other follow up action. It needs to be ensured that all audit documentation is complete, accurate and of professional quality. Working papers are a synopsis of audit operations conducted by the audit group. Entry of all items mentioned in the audit plan must be made in the working papers, during audit verification.

4.8.2 The provisions of Section 9(4) of the HPGST Act, 2017 specify a class of registered person who shall, in respect of supply of specified categories of goods or services or both received from an unregistered supplier, pay the tax on reverse charge basis as the recipient of such supply of goods or services or both. As such during the course of Audit, the auditors may examine the details of procurements from such un- registered persons.

4.8.3 For verifying the gap in ITC availment as identified in para 5.5.4, the auditor should carry out a test check of the invoices of such suppliers whose details are not figuring in GSTR 2A and identify some of such suppliers with high tax value and get the particulars of tax payment verified at the supplier's end.

4.8.4 In order to verify the correctness of TDS payments, the auditor should check the reconciliation statement showing purchases and prepare a list of all suppliers who have not paid GST. Some of these suppliers may either be unregistered or registered. In case of unregistered suppliers, details of payment of GST in terms of Section 51 of HPGST Act, 2017 may be verified and in case of registered suppliers the reasons for non-payment of GST may be ascertained in test cases.

4.9 Working Papers (**Annexure – GSTAM-VIII):**

i. The working papers form the basis of audit objection. They also show the detailed steps undertaken by the auditor during the preparation and conduct of the audit. Therefore, they should be filled carefully, giving observations and conclusions of the auditor duly supported by evidences/documents, wherever required.

ii. Each part of the working papers should be filled up on completion of the relevant audit step. The date on which such part is completed and working paper filled in should be mentioned. The working papers should be filled in by the auditors themselves and in no case should be handed over to the registered person for filling them up.

iii. The completed working papers must be submitted by the audit group with the draft audit report.

iv. Copies of supporting documents/records/evidences referred to in the working papers must be annexed at the end. Each copy should have a cross-reference to the relevant entry in the working paper.

4.10 Working papers should support the audit effort and results. They should:

i. Be clear, concise, legible, organized, indexed, and cross-referenced;
ii. Disclose the audit trail and techniques used in the examination of each significant item;
iii. Support the conclusions reached and cover all queries raised;
iv. Include audit evidence (e g., copy of a financial statement, an invoice, a contract, a bank statement, etc.) to support the assessment;
v. Link results to supporting working papers e.g. the objections identified in the working papers must agree with the summary of audit results or statement of audit objections and the audit report;
vi. See that audit reports are clear and disclose all material and relevant information; and
vii. Take follow up action.

4.11 Apparently, the financial and other documents maintained by the registered person for his private use and in compliance of other statutes are of great importance which may reveal substantial short/non-payments of duty. **Annexure-GSTAM-IX**

provides an illustrative list of such records/ documents, as also the relevant information that can be gathered from them. The auditor may take note of the same during 'Gathering information about the registered person and the system followed by him', and go through them during 'Audit Verification'.

4.12 In case it is not possible to conduct audit within three months period as prescribed under Section 65 of HPGST Act, DC/AC of zones is to submit proposals for extension of time limit for completion of audit well in advance preferably at-least one week in advance to the Commissioner explaining the circumstances under which the Audit could not be completed within three months period. In case extension of time period for completion of audit is granted by Commissioner, the fact of such grant of extension by Commissioner is to be intimated to the registered person.

4.13 Apprising the registered person of irregularities noticed and ascertaining his view point

It is important that the auditor discusses all the objections with the registered person before preparing draft audit report. The registered person should have the opportunity to know the objections and to offer clarifications with supporting documents. This process will resolve potential disputes at an early stage and avoid unnecessary litigation.

4.14 The ultimate aim of conducting an audit is to increase the level of tax compliance of registered person. Therefore, no audit can be considered to be complete unless the auditor has made all efforts to ensure maximum recovery of short levy before leaving the premises of the registered person. As the audit system adopts a transparent methodology, it is necessary that all the audit objections noticed by the audit group are conveyed to the registered person with a view to ascertain his point of view before preparing the Draft Audit Report. Accordingly, the audit objections should be intimated in writing to the registered person, clearly stating that the same is not in the nature of any show cause notice and is only a part of participative and fact-finding audit scheme under which even the preliminary and tentative audit observations are being shared with the registered person for ascertaining his point of view. Where satisfactory explanation or evidence is submitted to the auditor, the findings should be revised as necessary after placing the same before zones DC/ AC and obtaining his approval. However, if a response from the registered person is not forthcoming, draft audit paras should be prepared on the basis of available records after citing the lack of cooperation on part of the registered person, in the audit report.

4.15 It is the auditor’s responsibility to explain all the objections to the registered person and to make all attempts to resolve any disagreements before those are finalised. It is also the auditor’s responsibility to make sure that the senior officers are aware of potential disagreement and the position taken by the registered person.

4.16 Suggestions to Registered person for future compliance

4.16.1 Before leaving the registered person’s premises, the auditor must discuss future compliance issues with the senior management of the registered person. The auditor should also discuss the steps that management can take to reduce specific errors detected during the audit and to improve compliance by suggesting improvements in the accounting systems etc. Written or verbal assurances as given by registered person should be recorded in the audit report.

4.17 If, in any way, the department can assist the registered person to reduce errors and improve compliance, such offer of assistance should be made.

CHAPTER 5

PREPARATION OF AUDIT REPORT AND FOLLOW UP

5.1 Preparation of Draft Audit Report and submission to senior officers

5.1.1 After completion of audit verification, the auditor should prepare the verification report in the prescribed proforma as mentioned in Part VI of **GSTAM - VIII** for each issue of the approved Audit Plan. This document should record the results of verification conducted as per the audit plan. Any additional issue (not mentioned in the original plan) verified/ point noticed should also be mentioned. The auditor would then discuss each of such issues with the registered person pointing out either non-payment or procedural infractions. The initial views of taxpayer must be recorded in the verification document. The auditor should also apprise the registered person of the provisions relating to voluntary compliance and encourage him to take advantage of those provisions in order to avoid disputes and litigation.

5.1.2 Where the **registered person agrees** with the short levy, as noticed, the auditor should explain the benefit available under **Section 73(6) / 74(6)** as the case may be and use persuasion as a measure of recovery of dues along with interest, if any, promptly. Details of spot recoveries and willingness of the registered person to pay short levy should also be recorded. This document would then become the basis for preparation of the draft audit report.

5.1.3 The Draft Audit Report (DARs) shall be prepared in consultation with the Joint Commissioner of audit zone. The audit zones shall bring the NIL DARs to the notice of the Addl. Commissioner Audit for review, who has to record his findings in audit file based on desk review.

5.1.4 The narrative of the objections in the audit report should be concise, to the point and self-contained and should convey the gist of objections raised. Telegraphic narrations should be avoided. Where the objections are based on any circulars or clarifications issued by the Govt., they should be quoted. Cases, in which certain specified conditions are not fulfilled, giving rise to objections, should be clearly brought out. Similarly, where objections are backed by interpretations as decided by the court judgments, decisions of appellate authorities or supported by technical literature, those should be cited.

5.1.5 The draft audit report should be finalised within the shortest time span possible i.e. within 10 - 15 days of the commencement of the audit in the registered person's place and placed before the MCM for decision.

5.2 Monitoring Committee Meetings

5.2.1 The auditor should submit the draft audit report to the Joint Commissioner of the concerned audit zone **for approval and after approval of DAR the same is to be considered for placing before** Monitoring Committee Meeting (MCM). MCM is the committee comprised of senior officers of audit branch in headquarter or as decided by Commissioner of State Taxes and Excise.

5.2.2 Monitoring Committee Meeting (MCM) should be convened by the Addl. Commissioner Tax Audit, to which the Addl. Commissioner (GST) or his representative shall be invited to attend. Approved audit objections, including those in which show-cause notices are proposed to be issued, should be conveyed to the Commissioner in the form of Minutes of the MCMs, who shall respond to these objections conveying his agreement/disagreement within 15 days of the receipt of the minutes of the MCM.

5.2.3 The Planning and Co-ordination section of Tax Audit Branch will prepare the list of registered dealers to be audited based upon the informations derived from local risk parameters, desk review and from other sources, also organise zone-wise Monitoring Committee Meetings (MCM), at least at a monthly interval under the chairmanship of the Additional Commissioner Audit, with the prior approval of the Commissioner of State Taxes and Excise H.P. and the same should be attended by the Jt. Commissioner (GST)of the concerned zone. During the MCM each of the audit objections/ observations would be examined for its sustainability. The Committee (MCM) should also decide as to whether the extended period of limitation can be invoked or not and also on the applicability of the provisions relating to waiver of show cause notice in respect of each para **(refer Section 73(5) & 73(6)/ 74(5) & 74(6) of HPGST Act, 2017).** To facilitate prompt decision, the Joint Commissioner, the DC/ACs of the Audit zones should attend these meetings to offer their views on the spot, to ensure that uniformity in raising objections is maintained. The minutes of each such meeting should be drawn, pointing out the decision on each audit objection regarding its sustainability and directions for future action. The objections rejected by the meeting will be treated as closed.

5.2.4 The planning and co-ordination section of tax audit branch should make prompt entries in the registers of audit planning and audit follow-up, at every stage, until the closure of the audit point either by issue of a show cause notice or by recovery of amounts due or by closure on merits/reconsideration.

5.3 Final Audit Report

Based on the decision of the MCM, the draft audit report should be finalised within thirty days from the date of the meeting. The Planning and Co- ordination Section of audit branch shall upload the FAR using Audit Report Utility and issue FAR. A copy of the FAR, even if it is a NIL report, should be sent to the registered person, by e-mail through system and necessary records confirming such action should be kept in registered person's Master File.

5.4 Follow up action and issue of show cause notice

5.4.1 An audit objection should be closed after requisite action i.e., either recovery of amounts due or issuance of show cause notice, has been taken on it. However, for any pending action i.e., recovery, especially on paras admitted in writing by the registered person, can be taken up with the Addl. Commissioner (GST) for the final disposal.

5.4.2 On completion of the above procedure the planning section shall place the documents in the registered person's Master file and also update the electronic file of the registered person.

ANNEXURE – GSTAM - I

(Registered person's Master file – RPMF to be updated on regular intervals)

Part I - Registered person's Profile

1) Name of the Registered Person

2) GSTIN

3) Address of the registered person

(i) Name of principal place of business

(ii) Flat/Door/Block No.

(iii) Road/Street/Lane

(iv) Village/Area/Locality

(v) Block/Taluka/Sub-Division

(vi) Town/City/District (vii) State/Union Territory (Please see instruction No. 6(a))

(viii) PIN Post office

1. Telephone Nos.:

(x) Fax Nos. (xi) E-mail Address

4) Name and address of [redacted]e Corporate/Registered Office of the registered person

5) Web address of the company:

6) Permanent Account Number

7) Description of the goods/services supplied

8) Details of Additional Place of Business

Part II - Other information

1) Constitution of Business (Please Select the Appropriate)

Sl No	Proprietorship	ix	Unlimited Company
i	Partnership	x	Limited Liability Partnership
ii	Hindu Undivided Family	xi	Local Authority
iii	Private Limited Company	xii	Statutory Body
iv	Public Limited Company	xiii	Foreign Limited Liability Partnershi
v	Society/Club/Trust/Association of Persons	xiv	Foreign Company Registered (in India)
vi	Government Department	xv	Others (Please specify)
vii	Public Sector Undertaking		

Details of proprietor / partner / CEO / Chairman / Managing Director (as applicable).

Details of Proprietor/Partners/CEO/Chairman /Managing Director/Member etc.

(a) Name

(b) Designation

(c) Residential address

(i) Name of Premises/Building

(ii) Flat/Door/Block No.

(iii) Road/Street/Lane

(iv) Village/Area/Locality

(v) Block/Taluka/Sub-Division

(vi) Town/City/District (vii) State/Union Territory

(viii) PIN Post office

(ix) Telephone Nos.:

(a) office (b) residence

(x) Fax Nos. (Please see instruction No. 6(a)) (xi) E-mail Address

Permanent Account Number (PAN)

(issued by the Income Tax Department)

In case of more names, please provide the information in the above format.

1) Details of registration with any other Government Department/Agency or Regulatory Authority as the case may be.

i. Customs registration No. (BIN No.) yes ☐ no ☐
if yes give details

ii. DGFT's IEC No. Yes ☐ no ☐

if yes give details.

iii. Registrar of Company's CIN No. Yes ☐ no ☐

if yes give details.

iv. Tour Operators with RTA yes ☐ no ☐

if yes give details.

v. Stock Brokers with SEBI yes ☐ no ☐

if yes give details.

2) Name and designation of the authorized person of the Registered Person.

(a) Name

(b) Designation

(c) Residential address

(i) Name of Premises/Building

(ii) Flat/Door/Block No.

(iii) Road/Street/Lane

(iv) Village/Area/Locality

(v)Block/Taluka/Sub-Division

(vi) Town/City/District (vii) State/Union Territory

(viii) PIN Post office

(ix) Telephone Nos.:

(a) Office (b) residence

(x) Fax Nos. (xi) E-mail Address

In case of more names, please provide the information in the above format.

3) Name of the designated bank where the GST is deposited.

Name of the bank

Name of the branch

4) Details of the Bank accounts used for business transaction with name of the bank, its specific branch and account number.

(a) Account 1

(i) Name of the bank

(ii) Name of the branch

(iii) Account No.

Details of more Accounts used for business transactions

If yes,-

(b) Account 2

1. Name of the bank

2. Name of the branch

3. Account No.

Note: In case of more than two bank accounts, two major bank accounts may be entered above.

Part-III

Details of Supplies made and taxes paid

(a) HSN -wise details of value of goods supplied and ITC paid (for 3 years).

Period	Name & Description of goods	Taxable value of the goods	HSN code	GST payable/paid	Total credit utilized				Net GST paid in cash (GST-PMT-06)			
Year 1					HPGST	SGST/UTST	IGST	Cess	HPGST	SGST/UTST	IGST	Cess
Year 2												
Year 3												

(b) GST Services code-wise details of value of services supplied and ITC paid (for 3 years).

Period	Name & Description of goods	Taxable value of the goods	HSN code	GST payable/paid	Total credit utilized				Net GST paid in cash (GST-PMT-06)			
Year 1					HPGST	SGST/UTST	IGST	Cess	HPGST	SGST/UTST	IGST	Cess
Year 2												
Year 3												

(b)

(c) Details of Zero rated supplies and Deemed Exports made

Rs. In thousands

	Description of goods/services	HSN	Quantity	Value
Exports				
Supplies made to SEZ unit or SEZ developer				
Demand Exports				

Note: Wherever, it is possible, the data may be downloaded from GSTIN while preparing the Master file.

ANNEXURE II

FORM GST ADT - 01

[See rule 101(2)]

Reference No.: Date:

To, -------------------------

GSTIN ....

Name ....

Address ....

Period - F.Y.(s) - ....

Notice for conducting audit

Whereas it has been decided to undertake audit of your books of account and records for the financial year(s)........... to .... in accordance with the provisions of section 65. I propose to conduct the said audit at my office/at your place of business on ------

And whereas you are required to:-

(i) afford the undersigned the necessary facility to verify the books of account and records or other documents as may be required in this context, and

(ii) furnish such information as may be required and render assistance for timely Completion of the audit.

You are hereby directed to attend in person or through an authorised representative on .... (date) at................................(place) before the undersigned and to produce your books of account and records for the aforesaid financial year(s) as required for audit.

In case of failure to comply with this notice, it would be presumed that you are not in possession of such books of account and proceedings as deemed fit may be initiated as per the provisions of the Act and the rules made thereunder against you without making any further correspondence in this regard.

Signature ....

Name

Designation…………………….........

ANNEXURE – GSTAM – III

ILLUSTRATIVE LIST OF IMPORTANT DOCUMENTS FOR SCRUTINY AT DESK REVIEW STAGE

PART-A (FOR GOODS)

I. Check of Documents during Desk Review –

Sr. No.	Name of the Record/Document	Relevance of the documents and checks to be done
1.	**Annual Report & Director's Report**	
	The Annual Report prepared by a company inter alia contains the following: i) Director's Report (ii) Statutory Auditor's Report (iii) Balance sheet and Profit & Loss Account (iv) Financial statements of subsidiary companies, if any. Director's Report: This gives information like overall financial results of the company, important happenings during the year and future plans of the company. Some of the important happenings like fire and loss of material in the company, details of new products launched, change in the marketing pattern etc. reported in the report may be useful to the auditor. Auditor's Report: These may be reports of Statutory auditor or Internal auditor or C & AG Audit. In the case of statutory audit, a separate report under CARO (Companies Auditor's Report Order, 2003/2015) is required to be given. Nature of verification: (i) The Auditor's Report should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. For example, Auditor may report that goods meant for outward supply, available in stock were not reconciled or provision for obsolete items has not been made during the year. Tax auditor may like to examine such opinion in detail. ii) Company Auditor's Report Order (CARO) may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of inward supplies and goods meant for outward supply was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged goods. iii) CARO also shows disputed tax liabilities separately for Customs, Income Tax, GST etc. Cases booked under Income Tax may be examined to find out any implication on GST. iv) In the case of Public Sector unit, C & AG report and comment of the company available in the Annual Report should be examined.	
2.	**Profit & Loss Account**	
	Nature of the Account: The Profit and Loss Account shows major items of expenditure and income. This is one of the important documents used during	

	desk review to find out the overall working of the unit. In the main body of the Profit & Loss Account, only major heads of expenditure and income are given and the constituents of these headings are given in a separate annexure. The said annexure should be studied in detail. Types of verification: (i) Scrutiny of supplies: Supplies may include inter-state supplies, intra-state supplies, Zero rated supplies including supplies to SEZ. Study of the pattern of supplies will give an idea about the volume of indigenous/ internal market for the registered person's supplies. (ii) Other incomes like scrap, insurance claims receipt, profit on sale of fixed assets, commission received, erection and commissioning, freight and insurance recovered etc. may be examined in detail to find out the exact nature of such incomes and whether these have any bearing on the valuation or whether these are liable for GST (iii) On the expenditure side, value of inward supplies on which GST is payable under Reverse Charge - Section 9(3) should be examined in detail. For this purpose, the relevant ledger account may be scrutinized as discussed under the head General Ledger. Ratios like i) inputs consumed to inputs purchased, ii) ITC availed on inputs to outward supplies, raw material purchased and ITC taken on inputs etc. may be worked out. (iv) Notes given along with the said schedule should be studied carefully to find out cases of use of material for non-production activities. (v) The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations.
3.	**Balance Sheet**
	Nature of document : Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance sheet. Types of verification (i) Study of schedule of Share Capital may reveal if the company is subsidiary company and in case the company is holding company, in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are supplies between holding company and subsidiary & vice versa, valuation aspects needs to be examined in the light of HPGST Rules. (ii) Study of fixed assets schedule may show additions and deductions to the fixed assets during the year. For the deductions made during the year, verification may be made as to whether appropriate GST has been paid.
4.	**Notes to the Accounts**
	These notes are part of the Profit & Loss Account and Balance Sheet. These

	notes may be inserted by the company as per the requirement of the Companies Act or may be added at the instance of Statutory auditor. These notes are very important to a Tax auditor as these reveal important transactions or the important accounting policies followed by the unit. Nature of verification: (i) Notes of Significant Accounting Policies may be studied to find out the accounting policy in the areas like revenue recognition or determination of obsolete stock. (ii) Notes on quantitative information on inward and outward supplies may reveal number of interesting aspects. Cases of use of inputs for other purposes (not in the course of business or furtherance of business) may also be noticed from the study of such information. Adjustment for shortages, losses etc. may also be reported in the said information. (iii) Any important transaction/happening during the year like non-reconciliation of accounts of inputs lying with job worker, major expenditure on research and development, destruction of record and reconstruction of duplicate records may also be noticed from the study of such notes. (iv) As per the Accounting Standard issued by the Institute of Chartered Accountant of India, the specified companies are required to disclose transactions with the related parties under the Companies Act as part of the Notes to the Accounts. The said information gives all types of transactions, payments made or payments received from various related parties. Such information is very useful to find out the details of the related parties and the type of transactions made by them. However, the related parties as per the Companies Act may not be considered as 'related person' under the GST Law.
5.	**Trial Balance**
	Nature of Document :- Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger account maintained by an Taxable person. The final accounts, namely, Profit & Loss account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance, similar accounts are grouped together and these are transferred to the Profit & Loss Account and Balance Sheet. Types of verification :- i) Familiarization with account coding system and understanding the grouping of sub account under main accounts for the purpose of summarization into Profit & Loss Accounts and Balance Sheet. ii) Main purpose is to select the accounts for further scrutiny as a part of audit plan. Accounts which have a prima facie relevance for GST payment or availment of ITC need to be identified during Desk review. There might be some of the

ledger accounts whose exact nature may not be clear on reading of Trial Balance and these accounts may also be identified for further inquiry during the further course of audit.

iii) Unusual ledger accounts like Loss of inputs or unusual income accounts may also be noticed in the Trial Balance. However, such accounts will not be reflected in the Profit & Loss Accounts as these accounts are adjusted against other accounts. Such account may be selected for finding of exact nature and detailed scrutiny.

iv) Various income accounts (credit balances) available in the Trial Balance like Job Work Income Account, Erection and Commissioning Income Account, Commission Account, Recovery of Freight/Advertisement Charges Account Technical Consultation Income Account etc. should be selected to verify whether these income can be added to the assessable value for payment of GST or whether these are liable for payment of GST.

6. Cost Audit Report

Cost Audit Report provides quantitative and financial details regarding production, clearance, capacity utilization, input-output ratio, related party transaction, valuation of production along with reconciliation of annual turnover with taxable value of Goods produced as per the GST returns.

The Cost Auditor in his report gives the information/details on the cost data for the company as a whole as well as in the respect of each plant/unit of the company located at different locations, thus study of the report helps the audit officer in comparison of various information/details across the plants and units.

The details of relevant paras useful for GST Audit are given in the table below:

In case registered person is not covered under the cost audit, the Audit Officer may examine the Cost Accounting records maintained by them on the lines of Cost Audit Report.

The auditor may examine the following aspects from the Cost Audit report.

S. No. in Annexure to the cost Audit Report and subject	**What is to be seen**
1, 2 & 3 - General Information	Auditors may use this information at the time of Desk Review.
4 - Quantitative details	It contains details of : • Total available quantity • Samples/ Quantity Captively consumed • Outward supplies – with break up of Export & domestic clearance Auditors should reconcile this data with GST Return and major variation (if noticed) should be looked into.
5 - Cost Statements/	Separate cost statements would be available in respect of each

	Cost of production statement	product/ activity group. Auditors may utilise the same for valuation aspects. It also helps to compute taxable value under cost Construction method under Rule 30 of HPGST Rules, 2017.
	6 - Operating ratio analysis.	Auditors may use the same for comparison of operating costs of each group, over a period of time.
	10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions under Rule of HPGST Rules, 2017.

7.	Scrutiny of the Tax Audit Report
	i. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of ITC availed on capital goods. ii. Clause 27(a) of the Tax Audit report gives the details of ITC claimed. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the GST returns with the information provided in terms of this clause. iii. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that GST on such supplies is paid on these amounts as per the provisions of Time of supply under HPGST Act. iv. Clause 38 of the Tax Audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. v. Clause 40 of the Tax Audit Report provides the important accounting ratios.

PART-B (FOR SERVICES)

Sr. No.	Name of the Record/Document	Relevance of the documents and checks to be done
1.	**Annual Report & Director's Report**	
	The Annual Report prepared by a company inter alia contains the following: i) Director's Report (ii) Statutory Auditor's Report (iii) Balance sheet and Profit & Loss Account (iv) Financial statements of subsidiary companies, if any. Director's Report: Director's report may, inter alia, contain information about- a) Foreign Exchange earned during the year. b) Foreign Exchange paid during the year, e.g. may be on account of taxable services provided by the registered person/Taxpayer where he is liable to pay GST under reverse charge mechanism. c) Information on the operations carried out by the registered person/Tax payer	

	during the year under report. This may help in finding the exact nature of services provided by the registered person/Tax payer. d) The facts stated in Director's Report should be reconciled with the GST Returns. Auditor's Report: It is the most important report contained in the Annual Accounts of a Company. The statutory auditor certifies as to whether the books of account of the company are properly maintained or not and also whether internal control mechanism is commensurate with the size and extent of business of the company. Any adverse noting of the Statutory Auditor has to be replied by the management of the Company Nature of verification: (i) The Auditor's Report should be studied to find out any qualified/adverse opinion given by the auditors which may have impact on GST liability. ii) Company auditor's report order (CARO) Report may be studied to find out whether the fixed assets records have been maintained properly or whether physical verification of capital goods was undertaken and whether any discrepancies were noticed on such verification or whether the company has maintained proper records for unserviceable or damaged capital goods or not. iii) CARO Report also shows disputed tax liabilities separately for Customs, and Income Tax. Cases booked under Income Tax Act may be examined to find out any implication on the GST. iv) In the case of Public Sector unit, C&AG report and comment of the company available in the Annual Report should be examined.
2.	**Profit & Loss Account**
	Nature of the Account: The Profit and Loss Account shows major items of expenditure and income. This is one of the important documents used during desk review to find out the overall working of the unit. In the main body of the Profit & Loss Account, only major heads of expenditure and income are given and the constituents of these headings are given in a separate annexure. The said annexure should be studied in detail. The expenditure or income of the major heads should be compared with the previous year's amount in order to find out cases of major variations. Nature of Verification: The auditor is required to examine income and expenditure accounts in the Profit and Loss Account: Auditor should analyse both debit and credit side of the profit & loss a/c, trial balance, ledgers etc. because it is a myth that while ascertaining the tax liability, one has to look only at the credit side of P&L A/c. Debit side is equally important or rather more prone to frauds and errors. Therefore, the auditor needs to pay attention towards debit side also. Debit side is important because of– i. Reverse charge mechanism- under this mechanism, the recipient of services is liable to pay GST (e.g. GTA Services, services received from abroad, Services

	notified under Section 9(3) & 9(4) of HPGST Act.). Therefore, nothing appears on the credit side of the P&L a/c. However, GST has to be calculated on the amount paid towards taxable services received. Reimbursement- unless the concept of 'pure agent' is applicable as stipulated under Rule 33 of HPGST Rules, 2017, reimbursements are includible in the value of Taxable supplies. Reconciliation should cover all receivables including reimbursements, supply of goods etc **a) Income Accounts:** Normally, the Profit and Loss Account would show a consolidated entry for business income from all sources. According to accounting standards, non-business income such as interest income or dividend income is required to be shown separately. To begin with, auditors should call for the groupings of business income shown in the Profit and Loss Account. The said groupings would show the different heads under which the incomes have been accounted for. They should carefully study the nature of business income – some of which may have accrued from the supply of taxable services and the balance from the supply of non-taxable services. The exact nature of these services may be determined from the supporting documents such as vouchers, bills or contracts. In doing so, auditors need to be guided by the nomenclature (used for each service) in the Trial Balance or Annexure to the Profit and Loss Account. It is possible that the true nature of the service may be obscured or disguised by using a nomenclature that is either non-taxable or exempted. Other incomes like insurance claims receipt, sale of capital goods, commission received, erection and commissioning income, freight and insurance recovered etc. may be examined in detail to find out the exact nature of such incomes and whether these are liable for GST and have any bearing on ITC utilisation. **b) Expense Accounts:** Scrutiny of expense accounts would enable the Auditor to identify major expenditure heads. In specific terms, such scrutiny may be useful in the following manner: ➢Useful for verification of out of pocket expenses where deductions for these have been claimed from the value of taxable supplies. ii. Correlation between expenditure head and value of taxable supplies e.g. fuel expenses and the value of taxable service in the case of tour operators.
3.	**Balance Sheet**
	Nature of document : Balance sheet is a statement of assets and liabilities of a unit on a particular day. The overall financial health of a company can be determined from the study of a Balance sheet. Types of verification (i) Study of schedule of Share Capital may reveal if the company is subsidiary

	company and in case the company is holding company, in that case, the name of subsidiary company will be disclosed in the Schedule of Investment. If there are transactions with the holding/subsidiary company, in that case, the valuation of such supplies needs to be examined in the light of Valuation Rules. (ii) Study of fixed assets schedule may show additions and deductions to the fixed assets during the year. For the deductions made during the year, verification may be made as to whether appropriate GST was paid, if the ITC was availed in the past.
4.	**Notes to the Accounts**
	These notes are part of the Profit & Loss Account and Balance Sheet. These notes may be inserted by the company as per the requirement of the Companies Act or may be added at the instance of Statutory auditor. These notes are very important to a Tax auditor as these reveal important transactions or the important accounting policies followed by the unit. Nature of verification: In case of debtors, notes indicate debtors which are outstanding for a period exceeding 6 months. Foreign Exchange related transactions are also given in the notes on accounts. Management can use these figures to show book profit to suit their requirements. Netting of amounts of revenue or expenditure can also be resorted to by the management although as per accounting standards it is mandatory to specify the figures separately. Scrutiny of Notes will also reveal as to whether there was any change in the system of accounting. For example- a Taxable person changes from cash system of accounting to mercantile system. The notes also indicate the impact of accounting Policies on various liabilities including the tax liability of the Taxable person. Therefore, the auditor must read the notes carefully.
5.	**Trial Balance**
	Nature of Document :- Trial Balance is a statement showing balances of all accounts in the ledgers as on a particular date. In other words, it is a summary of the ledger account maintained by a Taxable person. The final accounts, namely, Profit & Loss account and Balance Sheet are prepared from the Trial Balance only. From the Trial Balance, similar accounts are grouped together and these are transferred to the Profit & Loss Account and Balance Sheet. The perusal of the Trial Balance could achieve the following: i. Familiarization with chart of accounts/account code and understand as to what extent the information is detailed and integrated with other subsystems; few samples Journal Vouchers may also be seen to understand the information mentioned therein.

	ii. Understand the grouping of sub accounts under main accounts for the purposes of summarization into Profit and Loss account and the Balance Sheet. iii. Identification of accounts, which have a prima facie relevance for GST payment (may be direct or indirect). These accounts may have to be seen in detail at later stage of audit depending upon the result of subsequent audit processes; iv. Understand the tax accounting system in so far as it pertains to Tax payment and treatment of credit of GST on input services; During the study of the Trial Balance/ Profit and Loss Account all income accounts should be studied in detail. The most important use of Gross Trial Balance is that it contains balances of individual accounts whereas in Balance Sheet and P&L A/c many accounts are grouped together, e.g., a. In the P&L A/c, all the incomes are clubbed together under the head 'Gross Receipts', 'Sales' as the case may be. However, Trial Balance shows income earned under each category of revenue separately. b. Not only the Trial Balance is important in relation to income side, but it is very important in relation to expenditure side also. For instance, Payment made towards **Sponsorship services** may be clubbed in the category of Advertisement and Sales Promotion Expenses which can be identified only from the Trial Balance. c. Similarly, **freight paid** may be clubbed with Purchases or Fixed Assets.
6.	**Cost Audit Report**
	Cost Audit Report provides quantitative and financial details regarding related party transaction, valuation of services rendered as per GSTR 9/ Periodical return under GST. The auditor may examine the following aspects from the Cost Audit report.

S. No. in Annexure to the cost Audit Report and subject	**What is to be seen**
Report and subject	
1 & 3 - General Information	Auditors may use this information at time of Desk Review.
5 - Royalty & Technical Know-how Charges	As the information contain is product wise, the auditor may find it useful in determining the tax liability of the Taxable person under reverse charge mechanism if any in case the same was paid to foreign entities. Moreover, auditor may go through the source documents about the scope of work and terms of payment to assess the tax-compliance on Royalty & Technical Know-how.

		10 - Related party transactions.	Auditors may use this information with regard to valuation of related party transactions.
7.	**Scrutiny of the Tax Audit Report**		
	i. Clause 18 of the Tax Audit Report provides information about amount of depreciation under Section 32 of the Income Tax Act, 1961 and that of ITC availed by the service providers on capital goods. ii. Clause 27(a) of the Tax Audit report gives the details of ITC claimed. It also provides the details of credit available and carried forward to the next year. Hence, the Auditor can authenticate the amount of credit carried forward in the GST returns with the information provided in terms of this clause. iii. Clause 21(b) of the Tax Audit Report also gives information regarding prior period incomes and expenses booked in the year under Tax audit. The Auditor shall ensure that GST is paid on these amounts in case they are subject to GST. iv. Clause 39 of the Tax Audit Report provides the information relating to Cost Audit. If such an audit has been carried out, the Auditor should examine the Cost Audit Report. v. Clause 40 of the Tax Audit Report provides the important accounting ratios.		
8.	**Scrutiny of Tax Deducted at Source (Income Tax TDS) Certificates**		
	The total receipts can be verified from TDS certificates in the following manner:- i. By deducting the amount of GST from the value on which tax has been deducted at source, the receipts appearing in the books of accounts can be reconciled. ii. The nature of supplies can also be confirmed from these certificates and in case of any discrepancy in the categorization of services under proper head, elaborate checks need to be carried out by the Auditor. iii. Details of TDS credit claimed in the Income Tax Return may also be examined.		

ANNEXURE – GSTAM – IV

RATIO ANALYSIS OF DATABASE

(PROCEDURE/FORMATS SEPARATE FOR GOODS AND SERVICES)

PART –A: GOODS

S. No.	Nature of Ratio / Method of calculation	Utility of the Ratios	Source Document
1.	Input Tax Credit availed **(A) :** Total tax paid through (Electronic cash ledger + Input Tax Credit)**(B)** = **(A)/(B)**	i) To identify wrong availment of input tax credit ii) To identify under valuation of goods as value- addition should involve adequate difference between the two. iii) To identify removal of goods without payment of duty. iv) To identify claiming of input tax credit on inputs used in exempted products.	Annual or Monthly GST returns (As applicable)
2.	Total inward supply cost**:** Total outward supply value	i) This ratio shows the part of outward supply value represented by inward supply cost. The balance outward supply value represents the value addition on account of non-taxable elements like wages, overheads, depreciation, interest. ii) Theoretically, this ratio should have a bearing on the ratio of Input tax credit: Total tax payment (Sl.No.1). iii) If this ratio is lower than ratio at Sl.No.1 or more than previous year's ratio, it may be on account of the following: a) Wrong availment of credit like cases of availing value of goods as credit or availment of credit of basic custom duties in case of import or double credit on same document. b) Fraudulent availment of credit like availment of credit without receipt/actual use of input. c) Rejection/return/clearances of inputs without reversal of credit d) Receipt of inputs and availment of credit	Annual or Monthly GST returns (As applicable) Trial Balance, Profit & Loss Account and Notes to the Accounts.

		but clearances of finished goods without payment of duty. e) Under valuation of finished goods. Important points to be considered: i) Only taxable goods sales value should be considered. ii) Export value to be excluded from sales value, if export is under bond (if export was on payment of duty, in that case, export value should be included). iii) Exclude the GST from sales value, if details are available.	
3.	Input tax credit availed on Capital Goods purchased during the year **:** Addition to Capital Goods	i) Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance sheet.	Balance Sheet & GST Returns.
4.	Other Income: Sales	i) If this ratio is higher than previous period, it may be on account of the following: a) Under valuation of finished goods by non-inclusion of other incomes like recovery of Advertisement expenses, Packing and Forwarding Expenses in the assessable value. b) Non-payment of duty on scrap/rejects/job work. ii) GST liability on Other Income may also be examined.	Profit & Loss Account.
5.	Outward supply of Scrap: Total outward supplies made	If ratio in the current year is lower, it may be on account of the following: i) outward supply of scrap made without payment of duty ii) Non receipt of scrap from job worker.	Profit & Loss Account/Trial Balance.
6.	Value of exempted outward supply: value	i) To identify outward supplies made in the guise of exempted supplies. ii) To identify supply of essential parts of outward supply as exempted supplies.	Profit & Loss Account.

	of total outward supplies made	iii) To identify under valuation of outward supplies by overvaluing exempted outward supply	
7.	Input tax credit availed on inputs: Purchase price of inward supplies	i) Non reversal of credit/payment of duty on inputs rejected/short received/cleared to other units/cleared as spare during warranty period.	Annual or Monthly GST returns (As applicable)
8.	Value of Zero rated supply : Total supply	i) To identify outward supplies made in the guise of zero rated supplies. ii) To identify under valuation of outward supplies by overvaluing zero rated supply outward supply	Profit & Loss Account.
9.	Non-GST Supply : Total supply	i) To identify outward supplies made in the guise of non-GST supplies. ii) To identify supply of essential parts of outward supply as non-GST supplies. iii) To identify under valuation of outward supplies by overvaluing Non-GST outward supply	Profit & Loss Account.

PART-B FOR SERVICES RATIO ANALYSIS OF DATABASE

Source	Utility of the Ratios in GST Audit	Nature of Ratio /

Documents	and manner of use	Method of calculation
1. Profit & Loss Account; 2. Income & Expenditure Account (in case of non-profit organisations like clubs); and 3. GST return	Compare the ratio over a period of 3-4 years. If the ratio is increasing there is possibility of the following irregularities:- i) Rendering of unaccounted outward supply. ii) Undervaluation of outward supply. iii) Diversion of outward supply income into non- taxable income. Compare this ratio (A) with (B) If ratio B is greater than ratio A, then there is a possibility of wrong availment of credit either due to calculation mistake or availment of credit on inward supply being not used properly in outward supply.	Total cost of inputs received (both Goods & Services): value of Taxable outward supply (say A) Credit availed: Total GST payable (say B)
1. Profit & Loss Account; 2. Income & Expenditure Account (in case of non-profit organisations like clubs); and 3. GST return	Compare the ratio over a period of 3-4 years or with the Taxable person rendering the same services. If the ratio is increasing over a period of time or it is more when compared to other suppliers, then there is a possibility of under valuation by showing outward supply income as non-taxable / exempted income.	Other incomes Account; not charged to GST **:** Value of taxable outward supply
Balance Sheet	A comparison of this ratio with the rate of growth of the value of taxable outward supply during the year may be useful in verifying whether the value of taxable outward supply has been correctly declared. It is particularly to be checked in cases where the additions to plant & machinery/fixed assets directly impact the volume of outward supplies.	Additions to plant and machinery / fixed assets during the year: Total value of assets at the beginning of the year
GST returns	Compare the ratio over a period of 3-4 years. If the ratio is increasing there is possibility of the following irregularities:- a) Rendering of unaccounted outward supply; b) Under valuation of outward supply; c) Showing outward supply income as non-	Amount of input tax credit availed on inward supply : Total tax liability on outward supply

	taxable outward supply income. d) Inflation of inward supply credit.	
GST return	i) To identify wrong availment of input tax credit ii) To indentify under valuation of outward supply as value-addition should involve adequate difference between the two. iii) To identify outward supplies made without payment of GST. iv) To identify claiming of input tax credit on inward supplies used in exempted outward supplies.	Input tax credit **(A)** : Total Tax paid through (Electronic cash ledger +Input Tax Credit) **(B) = (A)/(B)**
Balance Sheet & GST return	i) Addition to the Plant & Machinery is available from the Fixed Assets Schedule enclosed to the Balance Sheet.	Input tax credit availed on Capital Goods purchased during the year: Addition to Plant & Machinery.
Profit & Loss Account.	If this ratio is higher than previous period, it may be on account of the following: a) Under valuation of outward supply by non-inclusion of other incomes b) GST liability on Other Income	Other Incomes: Outward supplies.

ANNEXURE V

Only for those registrants who are required to file Annual return u/s 44 of the HPGST Act.

Part-A-Goods

COMPARATIVE CHART OF ITEMS FROM FINANCIAL STATEMENTS/ RETURNS

Sl. No.	Item	Records/Registers/Accounts maintained U/S 35 HPGST Act read with rule 56 of HPGST Rules(+)	GSTR-9(++)	Cost Audit Report (Annual) #	Income Tax Audit Report (Annual) ##	Trial Balance (Annual)	Annual Report (Including Balance Sheet & P & L Account) (Annual) @	ITR 6 (Annual) @@
1.	Quantity Manufactured	Production/manufacture account			28 b B(iii)		Schedule to Balance Sheet	Part A-QD (c) (5)
2	Goods Cleared							
	b) Quantity	Inward & outward supply account of goods	**17(3)+18(3)**	Sl. No. 4 (8) of Annexure	28 b (B) (iv)		Schedule to Balance Sheet	Part A-QD (c) (6)
	ii) Value	Do	**17(4)+18(4)**	Sl. No. 8 (1) of Annexure			Schedule to Balance Sheet	
3	**GST Paid**		**9**					
	a) Cash		**9(3)**					
	b) ITC		**9(4+5+6+7)**					
	Credit Register			Sl. No. 11 of Annexure	22(a)			
	II)Cash Register			Sl. No. 11 of Annexure				
	Total GST paid		**9(3)+9(4+5+6+7)**					
4	Export (Value & Quantity)		**4(C+D+E)+5(M)**	Sl. No. 4(8) of Annexure				
	a) Under Bond							
	I)Quantity							
	b)Value						Schedule to Balance Sheet "(Earnings in Foreign Exchange- f.o.b of Exports)"	
	On payment of GST							

	(a)quantity							
	(b)value		**4(C+D)**					
5	**Details of ITC taken and utilized**							
a)	Opening Balance							
a)	ITC Taken		**6(0)**		22(a)			
b)	ITC Utilised		**9(4+5+6+7)**		22(a)			
c)	I)Payment of duty of goods							
d)	II)Payment of duty of Services							
e)	III)Removal of Inputs & Capital Goods as such							
6	**Consumption of major raw material in manufacture**							
	a)Quantity				28(b)(A)(iii)		Schedule to Balance Sheet	Part A – QD (b) (4)
	b)Value						Schedule to Balance Sheet Schedules to P & L Account	
7	**Sale of Waste & Scrap**							
a)	Quantity							
b)	Value				28(b)(A)VIII 28(b)(B) VI	Under Head "Other Income"		
8	**Power & Fuel**					Under Head "Other Income"	Annexure to Director's Report	

							Schedules to P & L Account	
9	Written off stocks	Accounts of stock of goods			28(b)(A)VIII 28(b)(B) VI	Expenses for write off	Obsolete	

Note: Numbers mentioned in the blocks above denote S. No. of respective return/ financial statement

- Specified assessees among the notified industries under Cost Accounting Record Rules, under Section 233B of Companies Act, 1956.

- Units whose turnover is more than Rs.40 Lakhs, return under Section 44AB of the Income Tax Act. 1961

@ - Under Section 211 of the Companies Act, 1956.

@@ - Companies other than the companies claiming exemption under Section 11 of the IT Act, 1961

@@@ - Units manufacturing Bulk Drugs & Formulations under Drugs (Prices Control) Order 2013

(+) Auditor to obtain the information from the auditee while forwarding GST ADT-01

(++) Annual Return to be filed by the registered person, under Rule 80 of HPGST Rules other than an Input Service Distributor, other than an Input Service Distributor, a person paying tax as TDS/TCS, a casual taxable person and a non-resident taxable person, Note: Wherever it is possible, the data may be downloaded from GSTIN Portal

ANNEXURE – GSTAM- VI

QUESTIONNARE FOR REVIEW OF INTERNAL CONTROL SYSTEM AND WALK THROUGH.

PURCHASES – INWARD SUPPLIES

1. Whether all purchases are centralised or de-centralised. If all purchases are authorised by few key persons like owner or Managing Director etc, it may require in-depth study of purchases.
2. Whether all the purchases are made only by issue of purchase order and whether different series of purchase order are issued. Also, the issuance of series of purchase order is centralised in the purchase section. Are there any cases where purchases have been made without issue of purchase order?
3. Whether there is a system of authorised Vendor List. If not, what is the system of approving particular vendor? Are there instances where substantial purchases have been made through unauthorised vendors?
4. Whether rejected inward supplies are stored separately. What is the system of accounting for the rejected inward supplies/short quantity?
5. Whether for purchase returns, debit notes are issued?
6. Whether for rejected inward supplies any set procedure is followed.
7. At what stage ITC is availed, i.e. either before testing for rejection or after testing for rejection?
8. On the inward supplies rejected or short quantity received, whether the ITC reversal is done on each invoice basis or on monthly basis.
9. Whether any item supplied free of cost by the customer.

OUTWARD SUPPLIES

1. What is marketing pattern - is it through depot, stockist, C&F agent related person or directly by the registered person?
2. How many series of outward supply /GST invoices are generated? For example, there can be different series for outward supplies, export supplies, scrap, other items and job work.
3. Whether all different series of invoices of out ward supplies are entered in one outward supply account or in different outward supply account.
4. Who authorises for despatch of outward supplies?
5. Whether any charges for erection/commissioning collected?
6. Whether Tax invoices are issued for composite supply of both goods and erection & Commissioning (which involves applicability of rate of tax of principal supply, viz., goods)?
7. Whether any materials supplied to the recipients at free of cost?

8. Any amount for marketing expenses, Advertisement, Royalty, Handling Charges, Packing Charges, Warranty, after sales service and Insurance received from recipient in any manner?
9. Whether commercial invoices and outward supply invoices (Tax Invoices under GST) are same or different?
10. Who is authorised to fix the price of outward supplies and whether any printed price circulars are issued?
11. Who is authorised to make supplementary outward supply invoices or debit note for price variation/additional recoveries (advertisement, after sales service, additional packing, insurance, freight, depot charges)?
12. Whether outward supply figures mentioned in GSTR1 are tallying with the records maintained by the registered person?
13. Whether any goods were received for repair etc. on return by the recipients?
14. Types of discounts given and how are they accounted for in relevant records.
15. Whether recipients' accounts are debited with the net amount of invoice or gross amount?

STORES

1. Whether receipt in the stores record are shown only after inspection of inward supplies or before inspection.
2. What is the frequency of stock taking of all the items? How difference is accounted for and what reports are prepared.
3. What is the frequency of physical inventory for high value items (A category in ABC analysis) whether a report is prepared for stock verification and put-up to management and what is the frequency of reporting?
4. For inward supplies covered by insurance claim what is the procedure for filing the claim. Whether such inward supplies are entered in the store register or these are shown in separate account. Whether any register or report is prepared for all such claims.
5. What are the records maintained for inward supplies sent out for job work? Whether scrap is received back or job work price is adjusted.
6. How the defective/damaged inward supplies are reflected in the books of accounts?

TAX ACCOUNTING

1. Whether GST paid on inward supplies are shown separately in purchase account?
2. Whether all inward supply invoices are entered for full value and thereafter for rejected/stock quantity, credit note or sales return invoice is prepared.

3. Whether GST payable on outward supplies made and shown separately in outward supply account?
4. In case of capital goods whether full value including GST is debited in the books or net value is shown in the capital goods account.
5. In case of capital goods fully written off whether GST deducted from such expenditure account or not?
6. What is the system to check GST liability (payment through Electronic Cash ledger/ Electronic Credit Ledger) as shown in the financial records with the GST records? Whether any reconciliation is made for the differences?

JOB WORK

1. Whether any input/output ratio has been determined for sending the input for job work.
2. What are the records maintained for sending inputs for job work (either directly from the supplier of inputs/ from the place of business of the registered person) and whether the records show quantity of inputs sent, quantity of final product to be received, actually received and variation?
3. Whether any monthly or periodic statements are prepared for each job work and at what level the statements are verified for taking corrective action?
4. What is the system of treatment of scrap generated at job worker? Whether it is brought back to the registered person's premises or allowed to be disposed off by job worker?
5. Whether the finished goods after job-work are being supplied from job-worker's premises.
6. Whether the finished goods are not received back from the job worker in time (180 days), what action is taken by the company and what accounting treatment is done for the same?
7. Whether the processed inward supplies after conversion into outward supplies are sold by the directly from the premises of job worker?
8. Whether outward supplies are made after transferring the same to any other place from the job-worker's premises?

WALK THROUGH: Flow chart showing movement of transactions; same route can be followed for walk through process. (Consider only such part of flow chart as applicable in case the supplier being manufacturer or directly supplying goods procured as such)

I. Purchases

Vendor Development / Supplier identification

Quantification of requirements - Technical literature

Tender Document

Hire purchase -- Leasing agreements – Project reports

Purchase Order (Register of purchase Order)

Credit notes - Vouchers - Cheque book – Bills payable

Debit notes (for purchase return)

P

Purchase book

Purchase Return Book

Waste Register

II - INPUT TAX CREDIT

Gate Register

Weighment register/slips

Material receipt -- Loss in Transit /Rejects

Lab tests ---- Rejects/ return / debit note

Return of reject / rejected inputs – Tax Invoice/ debit note

inward supplies Leased.

inward supplies written off –

Capital goods --- fixed Asset register – Depreciation

I.T. return

Annual report -- Fixed Asset schedules / Depreciation schedules

Credit notes from suppliers

Tax Invoices for supply of inputs as Outward supplies (as such) / transfer 'assets'.

III Costing.

Cost audit report – cost register – Process chart

Trial balance

Balance sheet and P & L account / Annual report

IV <u>Price determination (Transaction Value)</u>

nvoices

Debit notes

Other income in Annual Report

Debtors Ledger / Creditors Ledger

Cost Audit Report

Register for inter Corporate Loan

Register of advances

Dealer's agreement / Consignment agents / C& F agents agreement

RBI approval for payment of Royalty

Bill of Entry Register

Bank reconciliation statement / Bank statement

Marketing files / Sales performance charts

Debit notes

Purchase order placed by buyers / sale contract

Fixed assets in custody of finance given by buyer

V. Classification (where applicable)

Research Development --- Product Development – Product lab

Responsibility for verification of tax liability

Intimation ---- Inter office Memo

Marketing documents including literature.

VI. Outward supply

Tender files

Outward supplies/ sales order Book -- Scrap Register

Marketing files

Price lists

Dealers agreement -- Distributor consignment Agents C & F Agents Agreements

Delivery note – Invoices

Despatch advice

Invoices register

VII. outward supply return

outward supply return book Bank Reconciliation Statement

Non moving stock register

Credit notes --- Job card / work order

Debit notes

IX Non Taxable items

Name of the Non-taxable item

ITC availment

Reversal of ITC

Part B- SUPPLY OF SERVICES

QUESTIONAIRE FOR REVIEW OF INTERNAL CONTROLS

(Information to be filled in by the Auditor before filling up the information in the working papers)

A. Flow Chart showing manner of verification of transactions and documents during Walk Through and Audit.

1. Verification of Supply of Services and Income:

➢ File of correspondences with the client/customer

➢ Quotation/Tender files

➢ Cost sheet to work out approximate cost of service (eg. cost of A.M.C., Advertisement cost)

➢ Price List (in cases where price of services are fixed as in case of Insurance Premiums, Cable Operators, Coaching Centers).

➢ Booking Register (eg. in case of Mandap keeper, Convention Centre, tour operators).

➢ Service Agreement/Contract like Agreement for Technical consultancy.

➢ Job cards/work statements (e.g. in case of AMC or repair of vehicle, job card may show value of services and material used)

➢ Invoices/Receipts

➢ Income Register/ Debit Notes

➢ Customer's ledger Account (to verify total amount billed, by way of invoice, debit note, payment received, credit note issued)

➢ GST returns

2. Receipt of Inputs (including goods and services – Inward supplies) and availment of ITC thereon

➢ Vendor/Supplier list

➢ Correspondence with vendor/supplier

➢ Tender/Quotation documents

➢ Purchase Order

➢ Purchase invoices/bills

➢ Debit Notes (for return of input services)

➢ Purchase Register

➢ Ledger Accounts of inward suppliers (to verify the date of payments for inputs)
➢ Bank Account/Cash Account (to verify random cases for payments in respect of inward supplies)
➢ Verify use of inputs (eg. use of telephone for output services or for non-taxable work, insurance for property used for output services)

➢ Verify ITC register maintained if any
➢ Verify relevant GSTR 3Bs and GSTR9/ GSTR 9C
3. <u>Financial Record Scrutiny</u>
➢ Trial Balance
➢ Check all Income Accounts (showing credit balances) in Trial Balance.
➢ Compare value of Income Accounts with value of taxable services shown in relevant GST returns.
➢ Verify invoices/bills/other documents of Income Accounts on which GST is not paid.
➢ Verify major expenses accounts to confirm whether any recoveries made from customer/client are adjusted in the expenditure account.
➢ Check Journal Vouchers/Debit Notes to verify recoveries from Customer/clients on which GST is not paid.
4. <u>Use of Inputs/ Input Services in Exempted Services:</u>
➢ Check details of Input Services on which ITC was availed
➢ Check, if any, record maintained for quantifying inward supplies used for exempted outward supply services or non-taxable activity.
➢ Verify use of inward supplies by verifying documents
➢ Check costing of outward supply (prepared for submitting quotation or prepared for calculation of cost of output services)
➢ Check job card/work statement to find out exact quantum of use of input services.

<u>B. Questionnaire for gathering information:</u>

<u>1. General:</u>

01	Name & address of the registered person.	
02	Name and contact number of the 'Authorised person' for Audit.	
03	GSTIN	
04	Whether the taxable person is also registered as an Input Service	

	Distributor?	
05	Whether the taxable person is a Proprietary, Partnership firm, Limited liability Partnership firm (LLP), Pvt. Ltd Company, Public Limited Company?	
06	Details of transactions with Associated Enterprise.	
07	Details of Taxable Supplies made	
08	Details of Taxable inward supplies received for which tax has to be paid under reverse charge. (under Section 9(3)/ 9(4))	
09	Details of exempted Services supplied, if any, & Notification No.	
10	If both Taxable and Exempted Services are provided, whether ITC is being reversed as per the prescribed method	
11	Details of Exports	
12	Whether any periodical report/statement is furnished to any State / Central Government / Authority / Regulatory bodies? If yes, details thereof.	
13	Whether any offence case is booked in respect of GST, Income Tax, VAT/ Sales Tax. If so, details thereof.	
14	Whether any service is sub-contracted partially or wholly? If so, details thereof.	
15	Whether ITC on input services availed? If so, indicate details of major input services.	
16	Whether ITC on Capital Goods availed? If so, details of such Capital goods, along with their HSN	
17	Whether entire consideration payable to the supplier was paid to them within 180 days on inputs received? If not, whether reversal of ITC/ interest thereof was done?	
18	In case the registered person is an Input service distributor (ISD),	

	whether he is having any unit supplying only exempted outward supplies? If yes, whether he is distributing the credit in respect of services related to that unit also?	
19	Whether any amount payable/ paid to the supplier has been adjusted against the receipt/ receivable and net income shown in the P&L Account.	
20	Whether any advance payment is received towards outward supplies? If yes, whether GST is paid on such receipts?	
21	Is there any expenditure to any entity abroad which has been made but on which taxable person is not required to pay GST under reverse charge mechanism? If yes, details thereof.	
22	Whether GST is paid on the gross value received including TDS amount deducted by the service recipients?	
23	Whether PF/ ESI or any other charges of the personnel of the service provider are being directly paid by the service recipients? If so whether GST is paid on such amount.	
24	Details of agreements entered into by the registered person for supplying / receiving services.	
25	Details of expenditure in foreign currency on which GST has neither been charged by the registered person nor it is payable under reverse charge mechanism	

2. Invoicing pattern

01	Is invoice issued in respect of all transactions? If not, reasons for not issuing invoice.	
02	How many series of invoices are being used?	
03	If more than one series is used, give details of each such series.	
04	If there are more than one series of invoices, is GST paid on all the series of invoices?	

05	If not, then the reasons for not paying GST on such series of invoices (e.g. exempted / exports / non-taxable services). Give details.	
06	Whether the invoice contains the GSTIN?	
07	Is invoice issued on the date of supply of service or before or later?	
08	List the different heads under which amounts are billed in invoices and their corresponding heads in the Trial Balance.	
09	Name the heads in the invoice on which GST is not paid.	
10	Are there any reimbursements billed in the invoice?	
11	Are there any debit/ credit notes issued for claiming reimbursements?	
12	If yes, is GST paid on these reimbursements? If not, reasons thereof.	
13	Whether invoices are generated on Computer. If yes, then whether the Invoice Numbers are generated automatically or is fed manually. What safe guards are provided in the system for data security? Give the name and designation of the person having the authority to cancel an invoice.	
14	Whether any amount is recovered by issue of debit note and whether it is included in the gross value of services?	
15	Give a brief on sale pattern of services liable to GST.	
16	Are any goods or services supplied by the service receiver free of cost or at subsidized price?	

3. **Accounts and records**

01	Whether accounts are prepared on mercantile basis or cash basis?	
02	Whether the Accounts are maintained electronically? If yes, the name of accounting packages / computer software installed for	

	maintaining accounts in the units like Tally, FAS etc:	
03	Whether accounting software was switched over to some other software during the audit coverage period.	
04	Whether any changes have been made in the accounting policies affecting GST liability relating to reimbursement of expenses, timing of payment of GST and treatment of payments in foreign currency?	
05	Whether accounts are audited by Statutory Auditor? If so, name and address of the auditor.	
06	Whether Cost Accounting records as prescribed under Section 148 of the Companies Act, 2013 are required to be maintained?	
07	Whether Cost Audit is conducted and if yes report thereof is prepared?	
08	Whether there is any system of Internal Auditing?	

4. Making of GST return

01	List the ledger/ accounts from where the monthly gross amount received is taken for taxable service.	
02	List the ledger/accounts from where the amount received towards gross monthly amount of Exports is taken.	
03	List the ledger/accounts from where the amount received towards gross monthly amount of exempted service is taken.	
04	List the ledger/accounts from where the gross monthly amount of amount received as pure agent is taken.	
05	List the ledger/ accounts from where the gross monthly amount billed is taken.	

5. Place of supply

1	Whether place of supply is correctly determined in case of supplies	

	so as to identify supplies as whether inter-state or intra state supplies	
2	ZERO RATED SUPPLIES - Value of services exported if any, on which no GST has been paid?	
3	If so whether all such supplies are eligible to be treated as such ZERO RATED SUPPLIES	
4	Is the payment for services exported received by the service provider in convertible foreign currency? It not, list those transactions where amounts are not received in foreign currency.	
5	Is the payment for services exported received by the service provider in convertible foreign currency within the time limit prescribed by RBI? If not, give details.	
6	Whether any services has been exported to "Associated Enterprises". If yes, mention the value thereof.	

6. VALUATION OF SERVICES

1	Is there any outward supply of goods involved in the course of providing service or otherwise?	
2	Is the value of goods supplied as mentioned in Point (1) above included in the gross amount charged as declared in GST	
3	"Gross Amount Charged" includes reimbursements billed for the purpose of determining value of supplies and in turn the tax liability?	
4	Is there any, Value of reimbursements on which GST is not charged	

7. AMOUNTS TO BE INCLUDED IN TAXABLE VALUE

01	Whether any Goods / Services provided free of cost by the recipient	
02	Whether reimbursements received from recipient	
03	Whether any other expenditure borne by the recipient, which are otherwise to be borne by the supplier?	+

8. MIS

01	What is the organization structure?	
02	Who is responsible for billing and outward supplies?	
03	What reports are given to his seniors on the daily, weekly, monthly sales? Give sample copies?	

Note: After obtaining the above information, the auditors may physically examine the concerned ledgers/ documents which may be relevant for verification of the issues mentioned in the audit plan as well as any new additional issues that may be identified during the time of gathering of the information.

ANNEXURE –GSTAM –VII

AUDIT PLAN

Part-A for Goods

Note: This is only an illustrative Audit plan for M/s ABC Paper Mills. Plan for each until should be Prepared based on the specific requirement

Guidelines for filling in the Audit Plan:

Sr. No	Subject	Specific Issue	Source Document	Back-up Document(Records/Registers/	Coverage Period	Selection Criteria

				Ac counts maintained U/S 35 HPGST Act read with rule 56 of HPGST Rules)		
1	Classification (HSN)	Availing exemption by claiming a specific heading/ conditional exemption	Invoice/GST returns	1.R M Procurement Register 2.Production Control sheets/ register 3. Lab reports.	For the months:	All documents
2	Valuation	Turnover Discounts	GST invoice	1.Commercial invoice 2. General ledger 3.Credit/Debit notes	Entire Audit period	All invoice serial numbers ending with 5.
3	Valuation	Sale to related person	(In case goods are subsequently sold by related party) 1.GST invoices issued by manufacturer /supplier of goods to related persons 2. Invoices issued by the related person to the customers.	1. Agreements relating to sales 2. Party ledgers	Second quarter audit year(s)	All invoices pertaining to related buyer
4	ITC	Receipt of actual quantity vis-	1.Input invoices 2.Credit	1. Material receipt note/ register 2. Insurance claim	Entire Audit period	All invoice

		à-vis quantity on which credit taken	availment register	Documents for transit losses 3. Stores ledger		

1. Subject: - For example classification, valuation, ITC etc.
2. Specific Issue to be verified. Under this column, the auditor should mention the precise issue pertaining to the subject. For Example Discounts passed on to the buyer, utilisation of inputs for repair/re-processing, etc.
3. Source Document/ Information to be verified: - documents/information reflecting or having a bearing on payment of GST, to be verified. For example GST invoice showing a particular discount.
4. Back-up Document: The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example Commercial invoice, party ledger, discount policy documents, price circulars, etc. reflecting the said discount.
5. Period of coverage: - Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.

Selection Criteria: - In case, the volume of documents for verification is large, the auditor may adopt sample verification. In such a case, the sample selection techniques should be spelt out. The sample should be chosen in such a way that it represents the whole, uniformly.

Part-B (Services)

Note: This is only an illustrative Audit Plan.

Guidelines for filling in the Audit Plan:

Sr. No	Subject	Specific issue	Source Document	Back-up Document (Record/Register/Accounts maintained u/s 35 HPGST Act read with rule 56 of HPGST Rules).	Coverage period	Selection Criteria
1						

2						
3						
4						
5						

1. Subject: - For example classification, valuation, ITC etc.
2. Specific issue to be verified. Under this column, the auditor should mention the precise issue pertaining to the subject.
3. Source Document/ Information to be verified: - documents/information reflecting or having a bearing on payment of service tax, to be verified. For example GST invoice showing a particular value.
4. Back-up Document: The documents to be examined to check the correctness of the information contained in the source document. The method of examination may also be specified under this column. For example Commercial invoice, party ledger, discount policy documents, Agreement/MOU etc. reflecting the value mentioned in the source document.
5. Period of coverage: - Normally, the coverage will be for the whole of the audit period. However, the auditor may conduct test verification for specific periods each extending over a short duration.
6. Selection Criteria: - In case, the volume of documents for verification is large, the auditor may adopt sample verification. In such a case, the sample selection techniques should be spelt out. The sample should be chosen in such a way that it represents the whole, uniformly.

ANNEXURE – GSTAM – VIII

WORKING PAPERS

Date of Preparation___________________ W/P No.________________

I. DETAILS OF AUDIT

1. Name of the Principal place of business
2. Address
3. GSTIN.
4. Period covered in Present Audit
5. Date of Audit
6. Date of submission of Audit Report

7. Draft Audit Report No.
8. Details of the Audit Group

S. No.	Name of the officer	Designation

9. Major audit objection in earlier internal audit reports (IAD) reports :
10. Major centrel excise review audit (CERA) observation in the past

II. NATURE OF BUSINESS OPERATION OF THE TAXABLE PERSON

1. Brief description of the main goods being supplied in the proforma given below:

Sl. No.	**Description of outward supplies**	**HSN**	**Exemption Notification availed**	**Rate of tax**

2. Details of Principal inputs and capital goods used by the taxable person.

Details of Principal Inputs/Capital Goods

Sl. No.	**Description of outward supplies**	**HSN**	**Exemption Notification availed**	**Rate of tax**

3. Brief details of the revenue for the last three financial years in the proforma given below:-

Year	**Total ITC credit availed (in Rs.)**				**Total GST Payment (in Rs.)**	
	CGST	**SGST**	**IGST**	**Cess**	**Cash**	**ITC Credit**

III. DESK REVIEW AND AUDIT PLAN:
(PROCEDURE/FORMATS SEPARATE FOR GOODS AND SERVICES)

PART – A: GOODS

Date of Preparation______________________

1. The auditor should check whether the Taxable person Master File is available in MIS Section and whether the same is complete. If not the auditor should complete the same as far as possible from the information available in the office.

Go through the information available in Taxable person Master File. Identify and mention (with justifications), the areas or issues which merit inclusion in the Audit Plan.

____

2. Obtain and study other documents mentioned in Annexure-GSTAM-III and conduct examinations as illustrated therein. List out the documents studied.

Sl. No.	Name of the document/report	Period*		Remarks
		From	To	

3. **Ratio Analysis of Data Base:**

Work out some of the important financial ratios as mentioned in Para 5.6.6 and Annexure IV. Mention the important indicators, which require to be included in the Audit Plan.

The results of Ratio analysis may be summarised in the following table.

	Ratio	FY1	FY2	FY3
(a)	ITC : Total GST payment			
(b)	Inward supply value : outward supply value as per P&L Account			
(c)	ITC availed on capital goods purchased during the years: addition to capital goods			
(d)	Other income: outward supplies as per P&L Account			
(e)	Power consumption/fuel consumption (Qty) : production quantity as per P&L Account			
(f)	Gross profit: Gross sales as per P & L account			
(g)	Production of Goods: Scrap			
(h)	Input-output ratio as per norms			
(i)	ITC on inward supply to total inward supply			

(m)	Quantity of Actual production to installed capacity			

IMPORTANT OBSERVATIONS OF THE AUDITOR (LEADING TO INCLUSION IN AUDIT PLAN)

S. No.	Analysis Description	Result of Analysis Performed	Auditor's Remarks

Mention changes in the law and rates of tax pertaining to the outward supplies made and inward supplies since previous audit.

4. ____

____

5. Mention details of anti-evasion cases booked in recent past or are in progress and past audit objections, which have not been settled so far, by way of taxable person acceptance, adjudication, appeals etc.

____

____

6. Give details of important areas (pertaining to the goods supplied, rate of tax, exemption notification and ITC availment on inward supplies to be included in the Audit Plan with reasons thereof.

____

____

7. REVENUE RISK ANALYSIS:

Date of Preparation________________

a. Perform the Revenue risk analysis, covering a period of at least one year or a minimum of one return, for GST payable and paid. The GST payable may be derived by determining the taxable outward supplies from Profit and Loss Account and other supporting documents and reconciling with taxable persons records. The existing GST rate may be applied to this to arrive at GST payable. This may be compared with total GST paid as per monthly return. Mention results indicating possible problem areas and mention issues to be included in the Audit Plan.

____

b. Perform the revenue risk analysis, covering a period of at least one year for ITC utilization and availment and record your conclusions as to the potential revenue loss. Value of inward supplies purchased as per the expenditure statement in the Profit and Loss account and other records as prescribed under section 35 (1) may be used for working out ITC available and compare it with ITC available in ITC credit Ledger (ITC PMT-01). Mention results indicating possible problem areas and mention issues to be included in the Audit Plan.

---

8. TREND ANALYSIS:

Undertake analysis of trends as illustrated in Para 5.5.9 or other trends as deemed relevant. Mention issues to be included in the Audit Plan. The results of Trend analysis may be summarised in the following table.

(Ratios marked with * are to be determined only in case the registered person is into manufacture)

Year	2017-18	2018-19	2019-20
Cost of production of major finished Goods (as per cost record) *	ABC_____	ABC_____	ABC_____
Quantity of inputs consumed in the production of Finished Goods *			
Value of inputs consumed in the production of Finished Goods *			
Value of Outward supplies			
Difference in ITC taken & ITC available on purchase of raw materials			
Job work income as per P&L Account or Trial balance			
Inter unit transfers /sales to related party as per Balance Sheet			
Gross operating profit Vis-à-vis sales			
GST paid by debit in Electronic Credit ledger vis-à-vis GST paid by debit in Electronic Credit Ledger			
GST paid by debit in Electronic Credit ledger vis-à-vis Total GST paid			
Production of finished goods/outward supplies *			
Production of scrap/ Production of finished goods			
Production of taxable outward supplies / vis-a-vis exempted supplies *			
Outward supplies made for home consumption vs export supplies			

Value of outward supplies made to related person vis-a-vis total value of supplies.			
Movement of inward supplies vis-a-vis total production*			
Movement of inward supplies/goods manufactured on job-work vis-a-vis total production*			
Input output ratio as per norms			

IMPORTANT OBSERVATIONS OF THE AUDITOR (LEADING TO INCLUSION IN AUDIT PLAN)

S. No.	Analysis Description	Result of Analysis Performed	Auditor's Remarks

9. FINANCIAL AND TAX ACCOUNTING INFORMATION:

Date of Preparation_________________

a. Obtain audited Balance sheet and Profit and Loss Account and trial balance. Review any notes in the Balance sheet / profit and loss account. If unit is a division of a company, check if internal financial statements are prepared for the unit before consolidation with other related units. Work out purchase value of inward supplies to value of outward supplies ratio and compare with ITC ratio. Obtain a copy of last two reports. Mention issues to be included in the Audit Plan.

____

b. Identify all business activities like supply of goods/ supply of services like repair, service activities and major source of 'Other Income'. Mention issues to be included in the Audit Plan.

____

c. Compare total turnover as per profit and loss account with the corresponding figures submitted to the department in the returns for three years. Mention discrepancies to be included in the Audit Plan.

____

GATHERING INFORMATION ABOUT TAXABLE PERSON AND THE SYSTEM FOLLOWED BY HIM

Date of Preparation_________________

i. INTERVIEWS

i. Person(s) Interviewed, their designation and dates of interview.

____

Give the gist of interviews specially in respect of

i. related ventures, business with these ventures and annual volume of such transactions,
ii. relationships with the unit and its owners / shareholders,
iii. the head office / registered office of the unit, location of its operations and location of its accounting records
iv. whether Company is an ancillary unit or independent unit of production:
v. Internal controls in the unit.
vi. any organizational or systemic changes that has occurred since last audit.

Mention issues to be included in the Audit Plan

____

EVALUATION OF INTERNAL CONTROLS

(Please refer Para 5.7.1, 5.7.2 and Annexure VI).

Date of Preparation________________

i. Perform a walkthrough for the Sales / Records maintained. Trace a sample of transactions (all types, including those on Credit) from source documents through the GST account. Mention any new area needed to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

____

ii. Perform a walkthrough of the purchase system (including capital assets). Trace a sample of transactions, of all types, including Credits, from source documents through the GST account. Examine specifically system for purchase, rejection, short supply etc. Mention any new area needed to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified

____

iii. Perform a walkthrough of any other system (eg. Stores Journal Entries, ITC accounting etc.) Trace a sample of transactions of all types from source documents through to the GST Account. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

____

iv. Perform a walkthrough of the process of compiling GST return for one month, tracing from the tax return amounts backwards through to their sources. Check supplies as per outward supply Account in ledger with value shown in monthly return. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

____

iv. Evaluate the soundness of level of Internal Control of each of the following areas/sub-systems and grade them as good, acceptable or poor in the following format:
In case quantum of data/information to be analysed is voluminous, apply ABC analysis (please refer para 5.7.2)

Name of area/sub system	Grade (good/acceptable/poor)	Problem area if any
Sales.		
Purchase.		
Tax Accounting.		
Posting to General Ledger and Journals (specially of high value transactions).		
Recording of invoice.		
Recording of cash sales and purchases.		
Credit/debit and their documentation.		
Other expenditures.		
Recording of and availment of ITC.		
Accounting of scrap/wastes.		
Account adjustments.		
Others		

vi. Any other relevant information gathered by the auditor during the course of Evaluation of Internal Control. Mention any new area need to be included in the Audit Plan or whether the extent of verification of the issue already identified in the Audit Plan needs to be modified.

____
____

AUDIT PLAN:

(Please see para 5.8 and Annexure VII).

Date of Preparation________________

i. Audit Plan approved by ______________ The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific in the following format **(also given in Annexure VII):**

The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific in the following format **(also given in Annexure VII):**

Sl. No.	Subject	Specific Issue	Records/Document code	Coverage Period	Selection Criteria

IV. AUDIT VERIFICATION AT THE UNIT:

A. OUTWARD SUPPLY/ SALES INFORMATION:

Date of Preparation________________

i. Indicate marketing / clearance pattern in the following proforma:-

Sr. No.	Nature of Sale/Transfer etc.	Yes	No	If yes, description of product (s)	*Practice of valuation followed by the taxable person.

1.	Direct Supply by the registered person				
2.	Supply through the depot/distributors / consignment agents / Marketing intermediaries.				
3.	Inter Unit transfers (not amounting to supply)				
4.	Inter Unit transfers (amounting to supply)				
5.	Self (Captive) consumption				
6.	supply to U.N. and other aided projects				
7.	Inward supplies received and job work done				
8.	Inward supplies /semi-processed material sent for job work outside.				
9	Outward supplies made from Job-worker's premises directly to the customers				

ii. Examine selected recipient's ledger (customer) to find out any amounts other than those shown in Tax invoices are realised (Check Debit Note and Journal Vouchers also).

____

____

iii. Identify other revenues as reported in the financial statements (Incomes other than from sales). Mention such other revenues which may form part of the assessable value

____

____

B. INWARD SUPPLY (INPUTS)/PURCHASE INFORMATION:

Date of Preparation________________

a. Goods

i. List major suppliers, inward supply of goods purchased and indicate annual volume in Rupees. Whether there are inward supplies purchased from related units?

____

____

ii. Examine selected creditor's account (supplier) for each major input to find out any purchase returns, short supply, rejection of goods etc. and its impact on ITC availment.

____

____

iii. Study the purchase details of major capital goods acquired and in the course of or furtherance of business.

____

____

b. Services

i. List major input services on which credit has been availed

____

____

ii. Examine selected 'credit accounts' for each major input services to verify whether payment has been made prior to availment of credit.

____

____

iii. Examine whether any input services may have been used in the exempted supplies.

____

____

iv. Examine whether any taxable services have been received from a service provider located outside India and verify whether GST due on such transactions if any, has been paid.

____

____

C. OTHER INFORMATION:

Date of Preparation________________

i. Study whether any goods are captively consumed. Mention issues to be included in the Audit Plan.

____

____

ii. Study whether any supplies are made to distinct persons, inputs/ partially processed intermediates sent for job work or received for job work. Study the valuation and ITC availment in such cases Mention issues to be included in the Audit Plan.

____

____

iii. Any other relevant information gathered by the auditor during the course of athering information about taxable person, and systems followed by him and study of financial documents. Mention issues to be included in the Audit Plan.

____

____

V. VERIFICATION AS PER AUDIT PLAN:

(Please see Chapter 5)

A. Carry out verification as per Audit Plan. The result of verification of each of the issues should be mentioned in the format below, whether or not there is any detection of discrepancy/audit point. The verification reports in respect of issues verified which was not part of original Audit Plan but verified later should also be mentioned at the end.

Proforma of a Verification Report

V.P. NO **DATE____________**

i. Name of the auditor verifying the issue:
ii. Issue involved in brief:
iii. Ref. No. of the Audit Plan:
iv. Documents verified:
v. Brief account of the process and extent of verification:
vi. Auditor's observation and conclusion in brief:
vii. Quantification of revenue involved, if any (also give the calculation sheet):
viii. Documents relied upon to support the conclusion:
ix. Party's agreement : Yes/No
x. If yes : In writing/Oral
xi. Amount of recovery, if any :

Signature of the auditor

Supervisor's remarks and signature.

VII POST VERIFICATION

(to be filled up before leaving the taxable person's unit)

Date of Preparation________________

A. Indicate information provided and specific actions suggested to the taxable person to improve future compliance. Where the taxable person is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the taxable person is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

____

____

B. SUMMARY OF AUDIT RESULTS

Provide an outline of all objections, which involve short/non levy of tax, amounts (say under Sec. 76 of HPGST Act), irregular availment/utilization of credit and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue/credit/interests/amounts should also be mentioned. Indicate whether the taxable person has agreed to the objections and if so, has made spot payment (if so details thereof). The summarised objections are to be uploaded in the audit utility and a draft audit report is to be generated for discussion during the Monitoring Committee Meeting.

ON CONCLUSION FAR IS REQUIRED TO BE SENT IN PROFROMA GST ADT -02 TO THE AUDITEE WITHIN 30 DAYS

(Auditor)
Name/Designation
Group No:
Place: _______________
Date: _______________

PART-B

SUPPLY OF SERVICES

I. RECORDS EXAMINED:

A standard list of records has been called for from the taxable person vide letter dated: __________ (FORM ADT-01) the following are the list of records received and examined:

a)

b)

c)

II. RATIO ANALYSIS:

Work out some of the important financial ratios over a period of time. Mention the important indicators, which require to be included in the Audit Plan. The results of Ratio analysis may be summarised in the following table.

	RATIO	2017-18	2018-19	2019-20
(a)	Cost of major input: value of outward supplies.			
(b)	Total credit availed: Total GST Payable			
(C)	Other income charged to GST: Value of taxable services			
(d)	Additional to plant and machinery/fixed assets at the beginning of the year			
(e)	Amount of credit availed on inputs: Total GST liability			
(f)	Consumables value: value of taxable services			

III. TREND ANALYSIS:

Work out trends of the following over a period of five years.

	TRENDS	2017-18	2018-19	2019-20
(a)	GST collection			
(b)	GST of a particular service vis-à-vis overall growth of that industry.			
(C)	Trend in proportion of value of exempted services to the total value of services.			
(d)	Value of outward supplies			
(e)	Gross Operating Profit			
(f)	Value of Exports			
(g)	Value of services undertaken on sub-contract			
(h)	Total GST paid			

IV. INPUT TAX CREDIT(ITC) ANALYSIS : (Rs in lakhs) for the last THREE years

Subject / Year	2017-18	2018-19	2019-20

Opening Balance			
Credit availed			
Credit utilised for payment of tax (Debits in Electronic credit ledger)			
Credit utilised for reversal under the provisions of Rule 42 of HPGST Rules			
Closing Balance			

V. ANNUAL TURNOVER VIS-A-VIS GST PAID:

Brief details of the annual turnover and the GST paid for the last five years and the current year (Only Income side to be mentioned, and as regards Value and Taxes, they refer to only output services- Reverse charge taxes not to be mentioned) (Rs in lakhs):

Year	Turnover as per P&L A/C or Trial Balance	Income on interest/FDs etc.	Value of Taxable Services	Total GST Paid	GST Paid (by debit in Electronic cash ledger)	GST paid –(by debit in electronic credit ledger)	% of ITC over Total GST

ASSOCIATE OF ENTERPRISES:

I	Does the taxable person have an associated Enterprise as defined in Section 2 of HPGST Act 2017				
Ii	If yes, then provide details				
S. No.	Name	PAN	Address	Type of relationship	Details of transaction, if any

VI. ANNUAL EXPENDITURE (IN INDIAN RUPEES) VIS-A-VIS GST PAID UNDER REVERSE CHARGE:

Brief details of the annual expenditure and the GST paid for the last five years and the current year (Only Expenditure to be mentioned, and as regards Value and Taxes, they refer to only taxes payable under reverse charge - except in case of import of services) [Rs in lakhs]

Year	Expenditure as per P/L statement pertaining to reverse charge items	Value of Taxable services	Total GST paid	GST Payable-cash

VII. ANNUAL EXPENDITURE OF FOREIGN CURRENCY VIS-A-VIS GST PAID UNDER REVERSE CHARGE:

Brief details of the expenditure in foreign currency and the GST paid for the last five years and the current year (Only Expenditure to be mentioned in relation to import of services) [Rs in lakhs]

Year	Expenditure as per P/L statement and Notes to Accounts (Foreign currency) and connected to Services only	Value of Taxable services	Total GST payable	GST Payable-cash

VIII. Brief details of Service Wise Exports (zero rated), turnover of non-taxable services and exempted services for the last THREE years:

Year	Description of service	Value of Export	Exempted services.	
			Value	Details of exemption Notification

IX. Brief details of Service Wise Pure Agent Benefit Claimed for the last THREE years: [Rs in lakhs]

Year	Service accounting code (SAC) of service	Taxable value	Amount claimed as Pure Agent	% of Pure agent amount claimed	Auditor's comments on the eligibility

X. In case the unit is registered as ISD, give the details of ITC availed and distributed: [Rs in lakhs]

Year	Credit taken	Credit not eligible for distribution	Credit distribution	Closing Balance of credit

XI. Analysis of data of GST Returns filed.

Observations of the group (for each year of the audit period) particularly whether the amount of GST calculated and paid correctly, delay in filing of returns, late payment of tax etc.

Year	Total Tax payable	Paid by cash	Paid using ITC	Total Tax paid	Tax short paid	Auditor's observations on delayed filing of returns, late payment of tax etc.

XII. RISK LOSS ANALYSIS

1. Sales Income and GST payment:

(a). Estimated sales value calculated from GST payment particulars =

(b). Estimated value of sales as per Sales Account =

(c) Estimated sales value as per 3CD =

(d) Difference if any

2. Purchase of Input Services and ITC availment:

Estimate taxable input services from purchase account and apply the rate of tax to determine the ITC that should have been availed on inward supply and compare it with ITC availment reported in GST return

3. Expenditure Account: Whether recoveries are made under various expenditure heads. If so, indicate the nature of such recoveries.

4. Whether services have any third party regulator. If so, name the regulator. Enclose copy of return submitted to third party regulator.

XIII. AUDIT PLAN:

Date of Preparation_________________

Audit Plan approved by _______________

The Audit Plan must be based on the issues identified in the previous steps as to be verified during the conduct of audit and must be specific and may be in the following format (may be included any other specific issues also that may emerge from Desk Review):

Sr. No.	Subject	Specific issue	Source document	Field Document	Coverage Period	Selection Criteria
1	Scrutiny of Returns	Timely filing of returns				
		Timely payment of Tax				
		Any short payment of tax as per declaration made in the returns				
2	Classification	Whether HSN of the service and minor code mentioned in GSTPMT-06 Challan is appropriate?	Important contracts, invoices, purchase orders issued by the clients			
		Exempted supply of Services – Check eligibility to Notifications	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Non Taxable services	Relevant notifications, Relevant contracts, invoices, purchase orders issued by the clients			
		Any receipts claimed as not a "Service" at all?	Relevant invoices, purchase orders placed by the client, JVs			
3	Valuation	Issue relating to				

		Reimbursement, FOC, etc.				
4	Place of supply of services	Payment of GST at the time of receipt of Advances				
		Transactions with Associated Enterprises				
5	Reverse charge	Import of Services				
		Domestic (Partial) Reverse Charge				
6	ITC	Eligibility as input service?				
		ITC admissibility and Rule 42 of HPGST Rules 2017				
		Short receipt/removal of inward supplies				
7	Other issues	Admissibility of coverage under Works Contract Services				
		Reconciliation between GST Returns and P&L A/C / TB				
		Any Other issue				

XIV. CONDUCT OF AUDIT:

A. Gathering of information about the tax payer:

While visiting the business premises of the taxable person, the auditor shall invariably gather the information as detailed in the Annexure –VI and the results thereof and any fresh/ additional points identified for verification be recorded hereunder:

B. Evaluation of internal controls (Walkthrough and ABC analysis):

i. Perform a walkthrough for the Records maintained. Trace a sample of transactions (all types, including those on Credit) from source documents through the GST account.

____

ii. Perform a walkthrough of the purchase system (including capital assets). Trace a sample of transactions, of all types, including Credits. Examine specifically system for purchase, rejection, short supply etc.

____

iii. Perform a walkthrough of any other system (e.g. Stores Journal Entries, ITC accounting etc.) Trace a sample of transactions of all types.

____

iv. Perform a walkthrough of the process of compiling GST return, tracing from the tax return amounts backwards through their sources. Check services provided as per relevant account in ledger with value shown in the return.

____

v. Evaluate the soundness of level of Internal Control of each of the following areas/sub-systems and grade them as good, acceptable or poor in the following format:

In case quantum of data/information to be analysed is voluminous, apply ABC analysis.

Name of area/sub system	Grade (good/acceptable/poor)	Problem areas if any
Services / supplies		
Tax Accounting.		
Posting to General Ledger and Journals (especially of high value transactions).		
Recording of invoice.		
Recording of cash sales and purchases.		
Credit/debit and their documentation.		
Other expenditures.		
Recording of and availment of ITC.		
Account adjustments.		
Others		

C. Carry out verification as per Audit plan:

The result of verification of each of the issues should be mentioned in the format below, whether or not there is any detection of discrepancy/audit point. The verification reports in respect of issues verified which was not part of original Audit Plan but verified later should also be mentioned at the end.

Proforma of a Verification Report

V.R. NO DATE____________

i. Name of the auditor verifying the issue:
ii. Issue involved in brief:
iii. Ref. No. of the Audit Plan:
iv. Documents verified:
v. Brief account of the process and extent of verification:
vi. Auditor's observation and conclusion in brief:
vii. Quantification of revenue involved, if any (also give the calculation sheet):
viii. Documents relied upon to support the conclusion:
ix. Party's agreement : Yes/No
x. If yes : In writing/Oral
xi. Amount of recovery, if any :

Signature of the auditor

Supervisor's remarks and signature.

xii. POST VERIFICATION

(to be filled up before leaving the tax payer's premises)

Date of Preparation________________

A. Indicate information provided and specific actions suggested to the taxable person to improve future compliance. Where the taxable person is in agreement with the suggestions, request a commitment in writing and include it in the Audit Report. If the taxable person is unwilling to give a written undertaking, obtain a verbal commitment. Mention results.

SUMMARY OF AUDIT RESULTS

B. Provide an outline of all objections, which involve short/non levy of tax, amounts, irregular availment/utilization of credit and non-payment of interest due. Details of objections of technical/procedural in nature without involving revenue / credit / interests /amounts should also be mentioned. Indicate whether the taxpayer has agreed to the objections and if so, has made spot payment (if so details thereof). The summarised objections are to be uploaded in the audit utility and a draft audit report is to be generated for discussion during the Monitoring Committee Meeting.

ON CONCLUSION FINAL AUDIT REPORT (FAR) IS REQUIRED TO BE SENT IN PROFROMA GST ADT -02 TO THE AUDITEE WITHIN 30 DAYS

Place: (Auditor) Name and designation, Group No.

Date:

ANNEXURE – GSTAM – IX

VERIFICATION OF RECORDS/REGISTERS DURING THE COURSE OF AUDIT VERIFICATION

(PROCEDURE / FORMATS SEPARATE FOR GOODS AND SERVICES)

PATR –I : GOODS

I. Records to be verified in the marketing and outward supplies department

1. Purchase Orders
2. Price Circulars

3. Delivery Challans
4. Material transfer note
5. Sales Book
6. outward supply book

II. Records to be verified in the stores department (Where applicable) -

1. Stores Ledger
2. Goods Receipt Note (GRN)/Material Receipt Note/Inspection cum Receipt Report (ICRR)
3. Material Return Note
4. Rejected Goods Register
5. Waste Register
6. Physical Stock Verification Statement
7. Job work/Sub-contract Register

III. Finance & Accounts related records -

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7 . Purchase Return Book
8. Income Tax Audit Report
9. Income Return
10. Fixed Assets Register
11. Monthly Stock Statement to Bank

I. Records to be verified in the marketing and outward supplies departments-

Sr. No.	**Name of the Record/Document**	**Nature of the documents and checks to be done**
1.	**Purchase order**	
	Nature of Document: This document denotes the price and other conditions laid for purchase of goods/outward sale of goods. Nature of Verification: Purchase order placed by Customers: (a) To verify the terms and conditions especially with respect to price revision, supply of any material/component by the customer, erection	

	and commissioning charges. The total price charged in the Purchase Order may be compared with the Taxable value invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note. (b) To verify whether GST invoice is raised for full amount as per the Purchase Order. (c) Taxability of outward supply of samples may be verified.
2.	**Price Circular**
	<u>Nature of Document:-</u> Most companies issues price circular periodically explaining various conditions of sales/ outward supplies like various types of discounts, conditions for providing the discount, recovery of freight, packing charges, interest and other charges. <u>Type of verification:-</u> i) Study the various elements to be recovered from the customers and whether these are required to be added to the transaction value or not like packing charges, freight charges, handling charges. ii) If any discount is given to a class of buyer, the exact nature of such discount may be studied in detail to find out whether the discount is admissible or not. iii) Verify whether any item or benefit if supplied free of cost by the buyer. iv) In case of cum duty prices, the various component forming part of value needs to be studied from price circular.
3.	**Delivery Challan**
	Delivery Challan indicates the description of goods, quantity cleared and receiver of goods. D.Cs may be of two varieties viz. returnable D.C. & Non-Returnable D.C. <u>Nature of Verification:</u> (a) Check how many series of DCs are issued and which sections are preparing these. (b) Returnable D.Cs are used for movement of job-work materials. D.C. Register should be verified to ascertain whether materials sent for job work has been received back within the stipulated time, if not, whether appropriate duty has been paid or not. (c) Non-Returnable D.Cs are used for clearance of goods, which are not to be received back. Normally it is the practice in the industry to raise D.Cs for outward supplies made and it accompanies the Outward supply Invoices. Inter unit movement of goods are sometime done through non-returnable D.Cs without any invoices resulting in clearance without payment of duty.

	(d) Verify whether GST has been paid on scrap cleared under N.R.D.C. (e) Replacements/Samples may also be cleared under the cover of NRDC's without invoices.
4.	**Material Transfer Note**
	<u>Nature of Document:</u> This document is used for inter unit transfer of materials & for inter branches transfers within a unit. <u>Nature of Verification:</u> Valuation adopted for such inter unit transfers need to be checked and whether duty has been paid on such transfers be ascertained.
5.	**Sales/outward supplies Book**
	<u>Nature of Document:</u> This is used for recording all credit sale/ outward supply of goods. <u>Nature of Verification:</u> (a) Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined. (b) Verify how many series of invoices are used for outward supply of goods. (c) Whether Debit Notes/Journal Vouchers are also entered in the outward supplies register. If yes, whether taxable value duty is payable on additional considerations received through such Debit Notes/JVs. (d) Outward supply register normally shows taxable value and duty separately. Verify the cases where taxable value and duty has not been shown and find out the reasons thereof.

II. Records to be verified in the stores department (where applicable) –

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	**Stores Ledger**	
	<u>Nature of Document:-</u> It contains the details about receipt of various input or consumable, its issue for production and closing balance. It also contains details like results of physical verification, obsolete items, slow moving items and write off etc. Nowadays most of the companies maintain stock records on computer. <u>Types of Verification:-</u> i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records. ii) Compare the purchase as per ITC documents with a receipt in the store	

	records. iii) Verify whether any shortage found on physical verification as per store records. iv) Verify whether any item written off due to obsolesce. v) Verify whether any input cleared as such and whether proper tax is paid or not.
2.	**Materials Receipt Note/Goods Receipt Note (GRN)/Inspection cum Receipt Report (ICRR)**
	<u>Nature of Document :</u> The MRN/GRN is prepared for all goods received in the factory. It shows the details like actual quantity received, quantity as per challan/invoice, quantity short received. It is prepared by the Stores Department. The ICRR is prepared by the quality control department and it shows the quantity accepted, quantity rejected and the reasons for rejection. A number of times these reports may not be physically available as these are maintained in computer systems. But statements may be generated on the request of Auditors for cases where goods have been short received or rejected. <u>Nature of Verification:</u> (i) Check the cases of short receipt and rejected goods and verify whether ITC has been reversed. (ii) Verify in random cases, whether for ITC availed invoices, corresponding GRNs are available or not.
3.	**Material Return Note**
	<u>Nature of Document:</u> This document is raised by various departments to return the material to stores or to suppliers. <u>Nature of Verification:</u> (i) In case ITC availed materials are returned to supplier whether appropriate GST has been discharged. (ii) In case MRN is raised by shop floor for rejection of raw material, the ITC treatment may be examined. (iii) In case MRN is raised by shop floor for rejection of partially processed material, such material should be cleared on payment of GST.
4.	**Material Requisition Note (MRN) and Material Issue Note (MIN)**
	<u>Nature of Document:</u> MRN is used by various sections in the factory for requisition of material from stores department. In turn, stores department issue the material on MIN. The MRN & MIN contain code no. of receiving sections, description of material and code no. of material issued, and quantity of material. <u>Nature of verification:</u>

	(i) MIN may also be used for adjustment of shortages, stock verification discrepancies, stock issued as scrap, obsolete items etc. There may be separate code no. for such adjustments. ITC treatment on such goods may be verified. (ii) For inputs cleared as such for outward supply, inter unit transfer, warranty period supply, MIN may be prepared showing different codes. All such clearances may be examined to verify payment of taxable value GST.
5.	**Waste Register**
	Where the raw material or components are not in useful condition, they are transferred to Bad Bins. The Auditor should verify the concerned records seeking reversal of credit on such unusable inputs. These goods are also known as obsolete items.
6.	**Physical Stock Verification Statement**
	<u>Nature of document:</u> The companies undertake periodic stock verification where book stock is compared with physical stock. The statement showing book stock, physical stock and variation is prepared on each such stock verification. Most of the companies undertake quarterly, half-yearly and annual stock verification. <u>Nature of verification:</u> (i) Stock verification statement should be examined to find out the cases of shortages or excesses. In case discrepancies are not explained, action may be taken either for demanding reversal of ITC or demanding GST. This statement may also be available in the Cost Audit Report. (ii) On the basis of such statement, stock adjustments are made in the financial records by passing a Journal Voucher. The said JV may also be examined for the adjustments carried out by the unit.
7.	**Sub-contract Register / Job Work Register**
	<u>Nature of Document:</u> This register indicates activity sub-contracted outside. <u>Nature of Verification:</u> a) To study whether all materials sent outside for job work have been received back within the time stipulated. b) In case the job worker discharges GST, then valuation of such goods should be examined as to inclusion of any freely supplied material in the value. c) Receipt of scrap generated at job workers premises should be verified.

III. Finance & Accounts related records.

Sr.No.	Name of the	Nature of the documents and checks to be

	Record/Document	done
1.	**Ledger**	
	Nature of document: Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to taxable value GST payment may be entered in Taxable value GST Payment Account. Ledgers are of three types: 1. Debtor's Ledger: This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of outward supply invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account. Types of verification: (i) Ledger account of the major customers should be scrutinized. In the Customer's account it should be verified as to what are the documents used for recording the outward supply of the goods. These documents may be outward supply invoices or debit notes or JVs. If debit note and JVs are also found entered in the customer's account, such documents should be verified to find out the reasons for such recoveries from the customers and whether on the taxable value GST has been paid or not. (ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment. 2. Creditor's Ledger: This Ledger contains accounts of all creditors like suppliers and service providers. Like in the case of Debtor's Ledger, in the case of supplier's account, the details like purchase invoice, debit note or JV may be available in a supplier's account. The debit note or JV might have been prepared for rejection of purchase material or for short receipt of purchase material. Types of verification: (i) If the customer's account shows details of debit note or JV, the reasons thereof may be inquired into and whether ITC has been reversed or not may be verified. 3. General Ledger: This Ledger contains all accounts of assets, liabilities, incomes and expenses. Scrutiny of this ledger is very important to a Tax Auditor as the income and expenditure accounts have direct impact on availment of credit, valuation of finished goods and payment of GST on the taxable value. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are	

	given below: (i) Credit entries in raw material purchase account (ii) Credit entries in expenses account. (iii) Income accounts. (iv) Unusual account. <u>Types of verification:</u> (i) All the important input purchase accounts may be verified in order to find out whether any rejection of raw material or short receipt of input have taken place and whether ITC has been reversed or not. (ii) Raw material consumption account may also be verified to find out with regard to writing off obsolete material or cases of shortages noticed during physical stock verification. (iii) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Outward supply Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer. (iv) From the Trial Balance, the income accounts (these accounts will have credit balances) should be selected for scrutiny and the exact nature of such income's accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the GST liability. (v) Unusual accounts as noticed during the study of Trial Balance may also be scrutinized so as to find out the exact nature of such accounts. (vi) The tax auditor may also verify the Plant and Machinery Account to find out the additions made during the year and the disposal of plant and machinery made during the year. In the case of disposal, whether the appropriate amount of GST on the taxable value has been paid or not may be inquired into by the tax auditor. (vii) As far as verification of claiming of depreciation on capital goods is concerned, the verification should be made from the Income tax return filed by the taxable person or from the Income Tax Audit Report (3 CD report).
2	**Debit Notes**
	<u>Nature of Documents:</u> Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the amount from the addressee. Debit Note may be issued for various reasons like return/short receipt of goods purchased, increase in the rate/quantity of the goods sold,

	recovery of packing charges, warranty charges, after-outward supply service charges etc. from a customer. The job worker may raise a Debit Note for value of own material used by him. The principal may issue a Debit Note to a job worker for the value of scrap generated during job work process and retained by a job worker. Types of Verification: (a) Since the number of Debit Notes issued by a unit are generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor. (iii) The Debit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Debit Note. Therefore, such documents should be studied in detail. (iv) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.
3.	**Credit Note**
	Credit Note is a statement informing the other person that his account has been credited for the reasons mentioned in the Credit Note. The financial impact of issue of a Credit Note is that the addressee is eligible to receive the amount of credit note. Credit Note may be issued for the reason like return of goods by the customer (outward supply's return) etc.
4.	**Journal Voucher (JV)**
	Nature of Document:- JVs are prepared for all adjustments which may not involve direct financial dealings. For example, accounting of raw materials consumed in a particular month, providing of depreciation or making provision for payment of royalty. Types of Verification: (i) As most of the adjustments are made at the end of the half year and at the end of the year, therefore, all the JVs for the half year ending month or year ending (September and March in the case of units following April to March as accounting year) must be verified. (ii) The narration given in the JVs should be studied in order to find out the exact nature of transaction being entered in the books of accounts. (iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centres may account for consumption of raw material for each centre on a monthly basis. In such cases, the raw material consumption by non-production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of ITC for entire year as only one JV is required to be examined for each month.

	(iv) Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is passed. (v) Sometimes additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or outward supply invoice). In such cases these transactions are accounted for through JVs. (vi) Similarly, for quantities short received or rejected quantity also the supplier may be compensated by way of intimation and the transaction is recorded through a JV.
5.	**Internal Audit Report**
	<u>Nature of Document:-</u> This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is a mandatory also. <u>Types of verification:-</u> i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of ITC, collection of additional consideration ii) Verify whether any system changes have been advised and followed by the taxable person. Also examine the implications on the past period for any short payment or non-payment of tax. iii) Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs to be examined.
6.	**Purchase Book**
	<u>Nature of Document:</u> This shows credit purchase of raw materials and other inputs. <u>Nature of Verification:</u> (a) To find out major suppliers (b) It may also show taxable value and GST separately. In that case taxable value and GST recorded in the purchase register may be reconciled with credit availed as per ITC return.
7.	**Purchase Return Book**
	<u>Nature of Document:</u> This book gives details of goods returned to suppliers. <u>Nature of Verification:</u> Verify whether ITC has been expunged / such goods cleared on payment of GST.
8.	**Tax Audit Report**
	<u>Nature of document:</u>

	The Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with the Income tax return filed by the taxable person. Nature of verification: Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of ITC on capital goods. (i) As per Clause 27(a) of the said report, amount of ITC availed or utilized during the year and its treatment in the Profit & Loss Account and treatment of outstanding ITC in the account is required to be given. Tax Auditor may compare the said information with the information as per taxable value records. (ii) As per clause 35(a) to 35(c), details like opening stock, purchases, outward supply and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, outward supply, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether GST has been paid on the outward supply of raw material as reported in the tax audit report may be inquired into.
9.	**Income Tax Returns**
	Nature of document: This return is filed by the taxable person with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and along-with the return a statement namely computation of income is enclosed. Nature of verification: In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of ITC availed by the taxable person or not.
10.	**Fixed Assets Register**
	Nature of Document: This register contains the details of purchase invoice, date of installation, place of installation, addition/deletion to the asset and depreciation charged. Nature of Verification: (a) Deletion of Assets – Payment of GST on clearance needs to be verified. (b) For physical verification, the location may be found out from this register.
11.	**Monthly stock statement to bank.**

	<u>Types of verification:-</u> Companies are required to file a stock statement every month to the banks when the stock is hypothecated for loans. In such cases, verify the stock position as per statement given to the bank and the stock position as per company's private and financial records.

PART-II –SUPPLY OF SERVICES

A. RECORDS TO BE VERIFIED

I. Marketing and sales department -

1. Purchase Orders/Agreements/MOUs
2. Outward supply book

II. Stores department -

1. Stores Ledger
2. Job work/Sub-contract Register

III. Finance & Accounts related records -

1. Ledgers
2. Debit Note
3. Credit Note
4. Journal Voucher
5. Internal Audit Reports
6. Purchase Book
7. Purchase Return Book
8. Income Tax Audit Report
9. Income Return

B. AREAS TO BE COVERED IN THE TAXPAYERS/UNITS AVAILING EXPORT PROMOTION SCHEMES:

II. Records to be verified in the marketing and sales departments –

Sr. No	Name of the Record/Document	Nature of the documents and checks to be done
1	**Purchase order/Agreements/MOUs**	
	Nature of Document: This document denotes the price and other conditions laid for purchase and sale of goods and services. Nature of Verification: Purchase order placed by Customers, Agreement/MOU with the Customers: (a) To verify the terms and conditions specially with respect to price revision, supply of any material/component by the customer, erection and commissioning charges. The total price charged in the Purchase Order may be compared with the GST invoice to ensure that no extra flow back is received outside the invoice through commercial invoice/debit note. (b) To verify whether the invoice is raised for full amount as per the Purchase Order/Agreement/MOU (c) Tax structure agreed upon in the purchase order should be checked with invoices raised for provision of services. In case the unit raises a separate commercial invoice, such invoices should be checked for the basic price, taxes, etc. actually collected.	
2.	Sales / outward supply Book	
	Nature of Document: This is used for recording all services provided. Nature of Verification: (a) Invoice Numbers mentioned should be sequential and if any number is missing the same has to be examined. (b) Verify how many series of sales invoices are used for provision of services. Whether GST invoice series and commercial invoice no. series are different. (c) Whether Debit Notes/Journal Vouchers are also entered in the sales register. If yes, whether GST is payable on additional considerations received through such Debit Notes/JVs. (d) Sales register normally show GST separately. Verify the cases where GST has not been paid and find out the reasons thereof.	

II. Records to be verified in the stores department -

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Stores Ledger	

	Nature of Document:- It contains the details about receipt of various input or consumable, its issue for production and closing balance. It also contains details like results of physical verification, obsolete items, slow moving items and its write off etc. Now a days most of the companies maintains stock records on computer. Types of Verification:- i) Verify coding system for receipt, issue, stock verification, valuation, input cleared as such, obsolete item and other found in store records. ii) Compare the purchase as per ITC documents with a receipt in the store records. iii) Verify whether any item written off due to obsolesce.
2.	Sub contract Register / Job Work Register
	Nature of Document: This register indicates activity sub-contracted outside. Nature of Verification: (a) In case the job worker/sub-contractor discharges tax, then valuation of such goods/services should be examined for the inclusion of any freely supplied material in the value.

III. Finance & Accounts related records –

Sr. No.	Name of the Record/Document	Nature of the documents and checks to be done
1.	Ledger	
	Nature of document: Ledger is a book where transactions of same nature are grouped together in the form of an account. For example, all transactions relating to GST payment may be entered in GST Payment Account. Ledgers are of three types: 1. Debtor's Ledger: This contains accounts of all debtors (customers). All transactions made with a customer are entered in the individual account of each customer. Details of sales invoices and debit note issued to a customer and payment received from a customer are entered in the customer's individual account. Types of verification: (i) Ledger account of the major customers should be scrutinized. In the Customer's account it should be verified as to what are the documents used for recording the sales of the goods/services. These documents may be sales invoices or debit notes or Journal Vouchers (JV). If debit note and JVs are also found entered in the customer's account, such documents should be verified to find out the reasons for such recoveries from the customers and whether GST has been paid or not. (ii) If substantial amount of advances are recovered regularly, this may also be verified from customer's account. In such cases, there may be credit balance showing receipt of advance payment.	

	2. <u>Creditor's Ledger</u>: This Ledger contains accounts of all creditors like suppliers and service providers. Like in the case of Debtor's Ledger, in the case of supplier's account, the details like purchase invoice, debit note or JV may be available in a supplier's account. The debit note or JV might have been prepared for rejection of purchase material or for short receipt of purchase material or for short receipt of services. <u>Types of verification:</u> (i) If the customer's account shows details of debit note or JV, the reasons thereof may be inquired into and whether ITC has been reversed or not may be verified. 3. <u>General Ledger:</u> This Ledger contains all accounts of assets, liabilities, incomes and expenses. Scrutiny of this ledger is very important to a Tax Auditor as the income and expenditure accounts have direct impact on availment of credit, valuation of finished goods and payment of GST. The General Ledger may contain 100-500 accounts depending upon the size of the company. Therefore, selection of account for scrutiny is an important task for an auditor. For this purpose, accounts should be selected from the Trial Balance which gives names of all the accounts maintained by a unit. Some of the general rules which may be kept in mind while selecting the accounts for scrutiny are given below: (i) Credit entries in expenses account. (ii) Income accounts. (iii) Unusual account. <u>Types of verification:</u> (i) All the important input purchase/inward supply accounts may be verified in order to find out whether any rejection of raw material or short receipt of input have taken place and whether ITC has been reversed or not. (ii) Expenditure accounts where recovery of expenses is possible like Packing and Forwarding Expenses Account, Advertisement Expenses Account, Transportation/Freight Charges Account, Sales Expenses Account etc. may be scrutinized in order to find out any recoveries being made from the customer. (iii) From the Trial Balance, the income accounts (these accounts will have credit balances) should be selected for scrutiny and the exact nature of such income's accounts should be found out from the study of the documents mentioned in the relevant ledger accounts. Some of these accounts might have direct impact on the valuation of finished goods or it may also affect the GST liability. (iv) Unusual accounts as noticed during the study of Trial Balance may also be scrutinized so as to find out the exact nature of such accounts. (v) The auditor may verify the Plant and Machinery Account to find out the additions made during the year and the disposal of plant and machinery made during the year. In the case of disposal, whether the appropriate amount of tax has been paid or not may be inquired into. (vi) As far as verification of claiming of depreciation on capital goods is concerned,

	the verification should be made from the Income tax return filed by the assessee or from the Income Tax Audit Report.
2.	Debit Notes
	<u>Nature of Documents:</u> Debit Note is a statement informing the other party that his account has been debited for the reasons given in the Debit Note. The financial impact of a Debit Note is that the addressee is liable to pay the amount mentioned in the said statement to the person who has issued the Debit Note. In other words, the person issuing the Debit Note is eligible to receive the amount from the addressee. Debit Note may be issued for various reasons like return/short receipt of goods purchased, increase in the rate/quantity of the outward supply of goods made /services rendered recovery of packing charges, warranty charges, after-sales service charges etc. from a customer. The job worker may raise a Debit Note for value of own material used by him. The principal may issue a Debit Note to a job worker for the value of scrap generated during job work process and retained by a job worker. <u>Types of Verification:</u> (i) Since the number of debit notes issued by a unit is generally not very large, therefore all the Debit Notes must be studied by a Tax Auditor. (ii) The Debit Note itself shows the reason for its issue and most of the time the supporting documents are enclosed with the Debit Note. Therefore, such documents should be studied in detail. (iii) Cases of additional recoveries from the customer or rejection and short receipt of inputs are generally noticed in the Debit Note.
3.	Credit Note
	Credit Note is a statement informing the other person that his account has been credited for the reasons mentioned in the Credit Note. The financial impact of issue of a Credit Note is that the addressee is eligible to receive the amount of credit note. Credit Note may be issued for the reason like return of goods by the customer (sales return) etc.
4.	Journal Voucher (JV)
	<u>Nature of Document:-</u> JVs are prepared for all adjustments which may not involve direct financial dealings. For example, accounting of raw materials consumed in a particular month, providing of depreciation or making provision for payment of royalty. <u>Types of Verification:</u> (i) As most of the adjustments are made at the end of the half year and at the end of the year, therefore, all the JVs for the half yearly period or yearly period (month of September or March in the case of units following April to March as accounting year) must be verified. (ii) The narration given in the JVs should be studied in order to find out the exact nature of transaction being entered in the books of accounts.

	(iii) Study of JVs may reveal accounting system followed by a unit. For example, a company following the system of cost centers may account for consumption of raw material for each centre on a monthly basis. In such cases, the raw material consumption by non-production department like construction department or maintenance department may be found out from the study of JVs which is passed at the end of each month. The said JVs may also be useful in quantifying the amount of wrong availment of ITC for entire year as only one JV is required to be examined for each month. (iv) Adjustment entries passed for transferring the balance of one account to another related account may also be found out from the study of JVs. For example, Recovery of Packing and Forwarding Charges Account may be transferred to Packing and Forwarding Expenses account and for this purpose a JV is passed. (v) Sometimes additional consideration may be collected from customer by issuing a simple letter to the customer (without issuing any debit note or sales invoice). In such cases these transactions are accounted for through JVs. (vi) Similarly, for quantities short received or rejected quantity also the supplier may be compensated by way of intimation and the transaction is recorded through a JV.
5.	Internal Audit Report
	<u>Nature of Document:-</u> This is the report submitted by internal auditors appointed by the company which looks into day-to-day activities and the systems followed by the unit. In the bigger company, it is mandatory also. <u>Types of verification:-</u> i) Call for sample audit reports and examine with respect to observations on loss of any input, excess availment of ITC, collection of additional consideration ii) Verify whether any system changes have been advised and followed by the assessee. In that case for the past period any implication on Excise payment due to a week internal control needs to be examined. iii) Internal Auditor also reports about stock verification and in case of shortages the ITC availment needs to be examined.
6.	Purchase/Inward supply Book
	<u>Nature of Document:</u> This shows credit purchase of raw materials and other inputs. <u>Nature of Verification:</u> (a) To find out major suppliers (b) It may also show GST separately. In that case GST recorded in the purchase register may be reconciled with credit availed as per Electronic credit Register GSTPMT-01
7.	Purchase Return Book

	<u>Nature of Document:</u> This book gives details of goods returned to suppliers. <u>Nature of Verification:</u> Verify whether ITC has been expunged / such goods cleared on payment of duty.
8.	Tax Audit Report
	<u>Nature of document:</u> The Tax Audit Report is given by Chartered Accountant. The said report is given in the form 3 CD and it is required to be enclosed along with the Income tax return filed by the assessee. <u>Nature of verification:</u> Depreciation statement as per the provisions of Income Tax Act enclosed with Tax Audit Report may be verified to confirm the correctness of availment of ITC on capital goods. (i) As per Clause 27(a) of the said report, amount of ITC availed or utilized during the year and its treatment in the Profit & Loss Account and treatment of outstanding ITC in the account is required to be given. Tax Auditor may compare the said information with the information as per excise records. (ii) As per clause 35(a) to 35(c), details like opening stock, purchases, sales and closing stock of trading activities and in the case of manufacturing unit quantitative details or principal items of raw materials, finished goods and by-products showing opening stock, purchases, consumption, sales, closing stock, yield of finished goods, percentage of yield and shortages/excesses is required to be given. This information may be used by Tax Auditor to verify the input-output ratio. The reasons for excessive shortage/ excesses and whether duty has been paid on the sale of raw material as reported in the tax audit report may be inquired into.
9.	Income Tax Returns
	<u>Nature of document:</u> This return is filed by the assessee with the Income Tax department showing the calculation of income tax on the profit / loss earned by them. The return is filed in the prescribed format and along-with the return a statement namely computation of income is enclosed. <u>Nature of verification:</u> In the computation of income statement, a depreciation statement is also enclosed. The said depreciation statement shows depreciation claimed on various assets as per the provisions of Income Tax Act. The auditors should verify whether the value considered for claiming depreciation is inclusive of ITC availed by the tax payer or not.

ANNEXURE – GSTAM- X

DRAFT OF THE LETTER TO BE WRITTEN BY THE REGISTERED PERSON UNDER SECTION 73(6) OF THE HPGST ACT, 2017,

To,
The Commissioner
GST Audit Commissionerate
____

Sir,

Subject: Letter given for waiver of show cause notice in terms of Section 73(5) of the HPGST Act, 2017– reg.

I / We M/s __________________________, address _____________________________ falling under the jurisdiction of zone________________ and district ____________ do hereby state and request as under:-

a) As per the provisions of Section 73(5) of the HPGST Act, 2017, where any GST has not been levied or paid or has been short levied or short paid or erroneously refunded, the person, chargeable with the GST , may pay the amount of such duty before service of notice on him under sub section (1) of Section 73 and inform the GST officer in writing in terms of sub section (5) of section 73 , who, on receipt of such information shall not serve any notice in respect of the amount so paid;

b) During the course of verification of our records / returns, by the Audit team from the office of Audit Commissionerate ____________, it is observed that there is a short payment / non levy / non - payment of GST / wrong availment of ITC on account of reasons mentioned as per the Annexure enclosed hereto. We have agreed to the points raised during verification / scrutiny and have paid the said amounts of duty and / or reversed the ITC of Rs. ________ vide PMT-06 Challan No. ________ / ITC credit Register Entry No. _______ dated ________. We have also discharged the applicable interest liability.

4. In terms of the provisions of Section 73(6) of the HPGST Act, 2017, we request that the demand show cause notice may not be issued to us in this case and no penalty may be imposed on us as the above short levy / short payment / non levy / non-payment / wrong availment of ITC are not intentional on our part.

5. We request that the above issues may be treated as closed with this letter since we have complied with the provisions of the GST law. It is hereby confirmed that this amount is paid voluntarily and no appeal will be filed against such payment or we will not claim any refund in future.

Yours faithfully

Date: _________

Place: ________

Signature CEO/Director/Authorised Signatory

(Name & Designation)

M/s ____________________________

ANNEXURE GSTAM XI

Form GST ADT – 02

[See rule 101(5)]

Reference No.: Date:

To,

GSTIN ....

Name ....

Address ....

Audit Report No. .... dated ....

Audit Report under section 65(6)

Your books of account and records for the F.Y......................has been examined and this Audit

Report is prepared on the basis of information available / documents furnished by you and the findings are as under:

Short payment of Tax	Integrated tax	Central tax	State /UT tax	CESS
Interest				
Any other amount				

[Upload pdf file containing audit observation]

You are directed to discharge your statutory liabilities in this regard as per the provisions of the Act and the rules made there under, failing which proceedings as deemed fit may be initiated against you under the provisions of the Act.

Signature..............................
Name.................................
Designation...........................

GSTAM - ANNEXURE - XII

Local Risk Parameters

The following are example of local risk parameters criteria that may be considered during selection of units for audit. The planning section, Hqrs of Audit Commissionerate may consider all or some of the below criteria, depending on available data and resources, and may also use additional criteria not listed below.

i. The Taxpayer did not provide or delayed in providing documents sought by the Audit Team
ii. The Taxpayer was not previously audited;
iii. The Taxpayer is newly registered;
iv. Length of time since last audit;
v. The Taxpayer had / did not have substantial assessment during previous audits;
vi. The size of the Taxpayer's turnover / net profit;
vii. The size of the Taxpayer's loss, if any;
viii. The size of the Taxpayer's refund, if any;
ix. The size of change in the Taxpayer's turnover/net profit from the previous year;
x. The size of the impact detected mistakes had on the Taxpayer's turnover / net profit;
xi. The ratio of expenses/turnover;
xii. The ratio of turnover/total assets;
xiii. The ratio of loans/total assets;
xiv. The size of income from high risk activities (e.g., real estate income);
xv. The size of exemptions, if any;

xvi. The percent of the net profit in comparison to the activity average;
xvii. The percent of the total profit compared to the activity average;
xviii. The Taxpayer requested waivers or is bankrupt;
xix. The Taxpayers files inconsistently;
xx. The Taxpayer is currently involved in legal disputes;
xxi. The Taxpayer's return was previously investigated for evasion;
xxii. The Taxpayer received notices from other governmental entities;
xxiii. The quality of the Taxpayer's books and records (manual / automated; not well-kept);
xxiv. The Taxpayer's returns is prepared by questionable accountants;
xxv. The specific sector, in which the Taxpayer operates (e.g., typical high-risk activities include restaurants and hotels, apartment rentals, professionals, car rental, spare parts for vehicles, chemicals, telecommunications, retail);
xxvi. The form of the legal entity (e.g., corporation / partnership);
xxvii. The multitude of the Taxpayer's legal relationships with other entities;
xxviii. The Taxpayer has multiple branches;
xxix. The Taxpayer has multiple activities;
xxx. Audit differences (past audit assessments).
xxxi. The Taxpayer has supplied goods on which there has been reduction in rate of duty, in order to examine the possibility of profiteering under Section 171 of the HPGST Act, 2017
xxxii. The Taxpayer has stopped filing GST returns.
xxxiii. The Taxpayer has applied for surrender of its registration.
xxxiv. Where there is increase in ratio of Exempted Supplies / Total supplies of a Taxpayer over time.
xxxv. Where higher incidence of supplies without issuance of e-way Bills have been noticed.
xxxvi. The Taxpayer who does not file periodical return but issues e- way bill regularly.
xxxvii. The Taxpayer who was not audited in the pre-GST era for the last 4 – 5 years.
xxxviii. The Taxpayer whose turnover increased substantially after enactment of GST.
xxxix. The Taxpayer who is not filing GSTR – 3B but in their electronic cash ledger, amount of TDS is reflected.

GSTAM ANNEXURE - XIII
Check list for Audit of Traders

1. INVOICING PATTERN:

1. Whether the invoice issued contains all the information prescribed in Rule 46 of HPGST Rules and is being numbered accordingly
2. Whether revised invoice or credit note or debit note issued contains all the information prescribed in Rule 53 of HPGST Rules
3. Whether the export invoice is being endorsed with the words "supply meant for export on payment of integrated tax" or "supply meant for export under bond or letter of undertaking without payment of integrated tax"
4. Whether the payment voucher issued for advance payment has been made as per Rule 52 of the HPGST Rules.
5.
6. Whether the receipt voucher issued for advance receipt has been made as per Rule 50 of the HPGST Rules.
7. In case of a composition dealer U/s 10 of the SGST/HPGST Act, whether bill of supply has been issued U/r 49 of HPGST Rules.

8. Whether invoice has been prepared in triplicate in the case of supply of goods as per Rule 48(1) of HPGST Rules.

N.B. – Significant omission/commission in the invoice should only be taken into consideration for taking action U/s 73 or 74 of the HPGST Act.

2. RETURNS:

1. Check the outward supplies made from GSTR-1 and compare it with the sales account maintained.
2. Check whether claim under Nil rated, exempted and non GST outward supplies shown in GSTR-1 is proper.
3. Check whether proper rate of tax was applied to outward supplies shown in GSTR-1
4. Identify zero rated supplies from the GSTR -1 and compare it with the records maintained by the trader.
5. Check the total taxable supplies from GSTR-1 and compare it with the sales account maintained to identify any suppression of sales.
6. Check whether the trader is filing returns within the time prescribed in Section 39 of HPGST Act.
7. Cross-check the GSTR 1/2/3 with GSTR 3B of the corresponding month

3. INPUT TAX CREDIT AVAILMENT:

1. Check whether the trader possesses all the invoices on which ITC was availed.
2. Check whether input tax credit was claimed on any negative list of goods mentioned in Section 17(5) of HPGST Act
3. Check whether input tax credit availed by the trader is in respect of any tax that has been paid in pursuance of any order where any demand has been confirmed on account of any fraud, wilful misstatement or suppression of facts which is not eligible in terms of Rule 36(3) of HPGST Rules
4. Check whether the calculation for reversal of tax when the input / input services are partly used for the purposes of business and partly for other purposes was done properly in terms of Rule 42 of HPGST Rules.
5. Check whether the calculation for reversal of tax when the capital goods are partly used for the purposes of business and partly for other purposes was done properly in terms of Rule 43 of HPGST Rules.

6. Check items on which ITC availed from GSTR-2 with purchase account maintained to ensure that the ITC was taken on the items actually purchased.
7. Check whether the trader has claimed depreciation on the tax component of the cost of capital goods and plant and machinery under the provisions of the Income-tax Act, 1961 and availed the input tax credit on the said tax component which cannot be allowed in terms of Section 16(3) of HPGST Act.
8. Check whether the trader has paid the value of Supply to the supplier within 180 days from the of issue of invoice by the supplier in terms of Section 16(2)(d) of HPGST Act to ensure that ITC was not taken in cases where consideration was not paid within the stipulated time.
9. Check whether ITC taken within the time limit stipulated in section 16(4) of HPGST Act.
10. Detailed TRAN-1 Verification

a) To cross-check the veracity of information furnished under TRAN-1 vis-a-vis the books of account and last returns filed under the repealed Acts.
b) To check whether ITC has been properly claimed on Capital Goods as per the existing provisions of the State VAT Act.
c) Whether Inputs/Semi-finished goods/Capital Goods have been returned back to the Principal Place of business which was sent to Job Worker within the prescribed time as per Section 143.
d) To check proper availment of credit on transactions where trader has not submitted statutory forms under the HPGST Act within the prescribed time.
e) Check whether the ITC taken after filing GST Tran-1 / Tran- 2 is proper

4. VALUATION

1. Whether "Time of supply of goods" was properly determined in terms of Section 12 (2) of HPGST Act while discharging the tax payable.
2. Whether time of supply of goods was properly determined in terms of Section 12(3) of HPGST Act in case of payment under reverse charge and tax liability was discharged properly.
3. Check whether the discounts allowed are in accordance with regular practice of the dealer and the purchaser has paid the sum originally charged less the discount.

4. Check whether any amount, that the supplier is liable to pay but incurred by the purchaser has been included in the value of supply
5. Check whether interest or late fee or penalty for delayed payment of any consideration for any supply collected from the purchaser is included in the value of supply
6. Check whether there are supporting documents for the credit notes issued for the sales made
7. Check whether there are supporting documents for the debit notes issued for the sales made
8. To check the time of supply of goods in cases where there is change in rate of tax u/s 14 of HPGST Act.
9. Whether the time of supply in case of Composite and Mixed Supply has been correctly made as per Section 8 of the HPGST Act.
10. Check whether transactions have been made between related persons. If so, check whether there is significant variation in the value in comparison to similar transactions with unrelated buyers. If there is significant variation in the value of goods or services, market value of the goods/services should be taken by rejecting the value disclosed between the related persons.
11. Whether the value has been made in accordance with the Valuation Rules from Rule 27 to 35 of the HPGST Rules 2017.

N.B. - Debit Note and Credit Note should have direct link to a transaction having implication on tax liability. Debit Note and Credit Note if not linked to implication of tax liability should be ignored.

5. PLACE OF SUPPLY

1. In respect of interstate supplies & Imports, check whether place of supply of goods has been properly determined in terms of Section 10 & 11 of IGST Act and IGST has been paid accordingly
2. To check whether place of supply of services has been properly determined in terms of Section 12 of IGST Act and IGST has been paid accordingly.

6. STOCK VERIFICATION

1. Check the physical stock of taxable and risk-prone commodities which can be quantified.

2. Check whether the stock-in-trade found at the time of Audit Visit tallies with the books of accounts maintained.

8. OTHER CHECKS

1. Total taxable turnover as per GST Return vis-à-vis turnover as per financial accounts.
2. Ratio between net purchases vis-à-vis Net Sales (Net Purchase = O.B. + Purchases - C.B.)
3. Value of Closing Stock vis-à-vis ITC balance.
4. Value addition percentage vis-à-vis cash payment of GST to total liability
5. Any other registrant in the name of family member just on paper.
6. Turnover before GST introduction to check suppression in value.

GSTAM ANNEXURE - XIV

CHECKS FOR COMPOSITE DEALER

	Source Documents	Manner of Ratio Calculation/ Study	Utilisation of the Ratios/Study in Audit
1.	GSTR 9 A as well as Profit & Loss account	Reconciliation of Turnover	To check whether turnover is under prescribed limit or not as P & L account provide turnover of all business related to a PAN
2.	GSTR 9 A & Profit & Loss Account/ Income & Expenditure account	Break up of Sales/Revenue from operations	Break up is to be checked with regard to income from Supply of Goods or Services with regard to study of exclusion as provided under Section 10 of HPGST Act, 2017
3.	Balance Sheet & GSTR-9 A Return	ITC availed	Availment of ITC can be checked with regard to study of exclusion as provided under Section 10 of HPGST Act, 2017
4.	GSTR-9 A Return	ITC reversal	ITC reversal is required while opting in composition scheme
5.	Profit & Loss Account and GSTR 9A Return	Expenditure incurred on inward supplies vis a vis tax paid under RCM	The expenditure incurred on inward supplies (on which tax is liable to be paid under RCM) as provided in expenditure side of P& L Account can be matched

			with the value of such inward supplies as mentioned in GSTR 9A, if any discrepancy found, checks can be performed in details during audit.
6.	Profit & Loss Account and GSTR 9A Return	Amount of GST shown in expense side	As per Section 10 (4) of HPGST Act, 2017, a composition dealer cannot recover tax from his customers on outward supply and tax is supposed to be borne by him from his own pocket. In other words Tax amount should be a part of the cost and should reflect in the expense side of P&L account. This can be verified and also reconciled with GSTR-9A return
7.	Profit & Loss Account/Trial Balance.	Scrap Sales: Sales	If ratio in the current year is lower, it may be on account of the clearance of scrap without payment of Tax
8.	Director's Report in Annual Report and Quantitative details of production from Profit & Loss Account	Power Consumption/Fuel consumption(Qty): Production Quantity	To identify suppression of production resulting into supply of unaccounted Goods without payment of Tax
9.	Annual Report and Documents pertaining to installed machinery	Quantity of actual Production (Nos./Kgs./Lt) : installed capacity	If the ratio is decreasing, there is a possibility of suppression of production and subsequent supply of Goods without payment of Tax
10.	Schedule of Quantitative details of tax Audit Report as required under Section 44AB of Income Tax Act,1961	Study of quantitative details of raw material as well as finished goods	Along-with the Profit & Loss Account, quantitative details of the consumption of major raw materials is also required to be given. Such quantitative details show the quantity of major raw material consumed and production thereof. Such information may be helpful in

			working out the input-out ratio which can indicate suppression of production of goods and supply thereof without payment of Tax.
11.	Balance Sheet	Schedule of Current Liabilities	From the grouping of this schedule, advance received from buyers can be noticed. If any advance is received, then payment of Tax in the light of "time of supply of services" can be verified.
12.	Notes on Accounts	Study of Notes on Accounts	Notes of Significant Accounting Policies may be studied to find out the accounting policy in the areas like revenue recognition
13	Trial Balance	Study of Income Accounts	Unusual income accounts may also be noticed in the Trial Balance, however, such accounts will not be reflected in the Profit & Loss Accounts as these accounts are adjusted against other accounts. Such account may be selected for finding of exact nature and detailed scrutiny.
14.	Trial Balance	Study of Expenditure Accounts	Some of the expenditure accounts on which RCM is applicable should also be selected to find out whether taxpayer has paid tax or not. For instance, payment made towards sponsorship services may be clubbed in the category of advertisement and sales promotion expenses which can be identified only from the Trial Balance.